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Luxembourg, 22 October 2018

## **Circular letter 18/9 from the Commissariat aux Assurances specifying the procedures for introducing new harmonised questionnaires for life insurance companies to assess the risks of exposure to money laundering and terrorist financing**

This circular letter is directed to life insurance companies only.

The purpose of this circular letter is

- to present the new harmonised quantitative questionnaires for assessing the risks of exposure to money laundering and terrorist financing (hereinafter "BC/FT risk") for life insurance companies (Point 1.) ;
- to introduce the possibility of using a modelling methodology (the so-called "model point" approach), which will facilitate the assignment of a BC/FT risk score to the existing stock of insurance contracts at the level of each life insurance undertaking (Point 2.) and
- to specify the procedures for the entry into force of the new quantitative questionnaires (Item 3.)

### **1. Redesign of existing quantitative questionnaires**

The Commissariat aux Assurances' circular letter 11/2<sup>1</sup> detailed the system set up by the CAA to assess the BC/FT threats and vulnerabilities of the insurance sector as a whole.

The constant evolution of the legislative and regulatory framework, the guidelines published by the European Supervisory Authorities (ESAs)<sup>2</sup>, the ongoing work of the FATF on Risk-Based Approach Guidance for the Life Insurance Sector<sup>3</sup> and the results of on-the-spot inspections carried out by the CAA have led the CAA to review the structure and content of the existing questionnaires.

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<sup>1</sup> Coordinated version of January 30, 2013

<sup>2</sup> [https://esas-joint-committee.europa.eu/Publications/Guidelines/Joint%20Guidelines%20on%20risk-based%20supervision\\_FR%20%28ESAs%202016%2072%29.pdf](https://esas-joint-committee.europa.eu/Publications/Guidelines/Joint%20Guidelines%20on%20risk-based%20supervision_FR%20%28ESAs%202016%2072%29.pdf)  
<https://esas-joint-committee.europa.eu/Pages/Guidelines/Joint-Guidelines-on-Risk-Factors.aspx>

<sup>3</sup> The FATF has been working on updating its 2009 Risk-Based Approach Guidance for the Life Insurance Sector. It is expected that the final document will be adopted at the FATF plenary in October 2018

The new questionnaires are as follows:

- 1) Annex I a) : Individual life insurance contract
- 2) Annex I b) : Group life insurance contract
- 3) Annex I c) : Insurance proposals refused by the company

Life insurance companies must complete Annexes I a) and I b) for each new subscription and for each movement or significant modification<sup>4</sup> of an existing contract. The new questionnaires enable the updated BC/FT risk level of the contract to be displayed at any time.

Annex I c) makes it possible to identify any insurance proposal that the company has refused through a reasoned decision.

It should be noted that these questionnaires form the basis of the CAA's AML/CFT risk-based monitoring model.

## **2. Implementation of a risk-based approach for the review of the stock of individual contracts**

The CAA's risk-based monitoring model must cover the entirety of each life insurance company's contracts. It is therefore imperative to assign a BC/FT risk score to all existing contracts of each company.

Since the award of such a score may cover a significant number of contracts and in order to enable the CAA to obtain a global and harmonised assessment of the level of BC/FT risk within an appropriate period of time, the CAA has decided to allow companies to implement a methodology, which should avoid companies having to manually review all existing contracts for reporting as at 31 December 2019 (see also the deadlines defined in point 3. of this circular letter).

Indeed, this methodology will make it possible, for certain categories of contracts previously defined, to automatically generate scores for most of the questions in the new questionnaires, based on a so-called "model point" approach based on the prior analysis of a sample of files with similar characteristics.

### **2.1. Basic principles**

In order to be able to apply the "model point" approach and collect for each question of the questionnaire the average score of the sample considered, an insurance contract is subject to two types of conditions:

- 1) The contract must have similar characteristics to those of the sample used (homogeneity criterion);
- 2) The contract must not be declared ineligible under the evaluation process described in point 2.3. below (eligibility criterion).

For any contract that does not meet these two conditions, only manual scoring based on the entire questionnaire is admissible.

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<sup>4</sup> Cf. glossary

## **2.2 Implementation of the homogeneity criterion**

As regards the first condition, it is up to the insurance undertaking to decide for itself the degree of granularity to be applied.

The practical implementation of a "model point" methodology depends heavily on the risk profile of a given company and can therefore vary from one company to another. The CAA wishes to give companies some freedom to develop their own methodology "model point" subject to compliance with at least the following principles:

- Definition of "homogeneous risk groups" based on objective criteria (e. g. product type, market, etc.);
- Complete manual review of a representative sample of contracts from each "homogeneous risk group" defined;
- Determination of a general score and a score per question for the "model point" on the basis of this sample;
- Internal validation of the "model point" by the company;
- Marking of "model point" contracts at the level of contract management systems.

The approach adopted should in all cases be formalised in an internal procedure.

## **2.3 Implementation of the eligibility criterion**

Eligibility for the "model point" methodology for an existing contract depends on the answers given to a subset of 11 questions (covering 10 different BC/FT risk factors) of the new quantitative questionnaire and the resulting score.

Any contract that obtains an overall score of 4 points (or more) on the basis of these 11 questions is considered ineligible for the application of the "model point" approach. This overall score may be the result of a single 4-point risk factor or a combination of several lower scoring risk factors.

In addition, any contract which is or has been classified at a level of "enhanced vigilance" at the level of the life insurance undertaking is considered ineligible.

Annex II specifies the principles and procedures for the implementation of this methodology and lists the 10 BC/FT risk factors that must be taken into account by insurance undertakings when modelling the allocation of a risk score.

Only individual contracts are eligible for this methodology. The stock of group life insurance contracts (excluding affiliates) will have to be reviewed manually using the new questionnaire.

## **2.4. Mandatory application**

In principle, any eligible contract complying with the characteristics of a homogeneous contract class must initially be subject to automatic scoring (prohibition of cherry picking).

When leaving the approach in favour of manual evaluation as described in 3.5. companies shall ensure - within a homogeneous category - that contracts considered to be most at risk are re-evaluated as a matter of priority in accordance with internal criteria to be defined.

Any contract that has been taken out of the "model point" approach and manually reviewed on the basis of the entire questionnaire may no longer revert to the simplified approach.

## **3. Procedure for introducing new questionnaires**

### **3.1. New life insurance contracts**

With regard to new contract subscriptions, life insurance companies may use the new questionnaires as from January 2019. However, the CAA requires their mandatory use from 1<sup>st</sup> September 2019 at the latest. Until the implementation of the new questionnaires, each life insurance company will continue to be required to complete the questionnaires currently in force.

### **3.2. The stock of life insurance contracts**

Principle: All individual and group life insurance contracts must have a score (general and by question) from the new questionnaires as at 31 December 2019.

For individual life insurance policies, the score will be generated either by manually reviewing the new questionnaire or by implementing the "model point" approach as described above.

### **3.3. Updating the questionnaire during each movement**

Companies are not only required to assess the level of BC/FT risk when entering into a business relationship. As part of the implementation of constant vigilance, they are also required to adapt the level of risk, in particular during "any significant change affecting them or any new risk"<sup>5</sup>.

The CAA requires

- the update of the questionnaire of this circular letter for contracts that have been manually evaluated according to the headings of this questionnaire and

- the manual evaluation of the contract according to the questionnaire in this circular letter for contracts that have not yet been subject to such an evaluation

for each transaction from 1<sup>st</sup> September 2019 at the latest.

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<sup>5</sup> CAA Regulation No. 13/01 of 23 December 2013

For contracts that have already been manually evaluated using the questionnaire in this circular letter and in order to avoid reviewing the entire questionnaire, the CAA allows companies, depending on the level of risk observed in the contract and the type of movement, to limit the manual updating to the questions directly affected by the movement. For the other questions, companies may use the answers from the most recent analysis.

For contracts that have been scored through the "model point" approach and that are subject to a total buyback or final performance payment, it is not mandatory to determine a new score through a manual evaluation of the questionnaire. However, companies must apply appropriate due diligence measures to these types of transactions.

It is up to each company to set the criteria in its internal procedures, which trigger a new validation of all the questions in the questionnaire.

### **3.4. Contracts with no movement during a specified period**

In addition, each company must establish in its internal procedures the level of risk and the criteria that trigger a new validation of the questionnaire even in the absence of movements over a given period.

### **3.5. The deadlines for manual review of split contracts through the methodology "model point"**

It is up to each life insurance company to set up an action plan that must allow manual review within a reasonable time of all life insurance contracts that have been scored through the "model point" approach.

This action plan will take into consideration a prioritisation approach based on BC/FT risk, but this review may not go beyond the end of 2024 for more sensitive contracts and the end of 2027 for less sensitive categories of contract (e.g. pure protection).

### **3.6. Computer processing and backup of contract scores**

It is essential that companies can identify at any time in their management systems the contracts that have been scored through the "model point" approach.

In addition, the initial score of each contract (and each question), whether it is derived from manual or automatic scoring, as well as all successive scores, must be stored in an electronically usable system and be accessible at a given date in order to ensure a reliable audit trail.

The implementation of and effective compliance with this circular letter will be monitored by the CAA (1) during on-site inspections and (2) by the annual submission of the BC/FT risk assessment statistics, the details and format of which will be communicated subsequently by the CAA.

Circular letter 11/2 will remain in force for statistics relating to the year 2018 and until the new questionnaires are fully implemented by the life insurance company by 1<sup>st</sup> September 2019 at the latest.

For the Executive Committee,

Claude WIRION  
Director

## Annex I a) : Individual life insurance contract

<b>Contract number</b> <b>Date of the last assessment</b> <b>Current contract score</b>	<b>XXXX XXXX XXXX XXXX</b> <b>xx/xx/20xx</b> <b>XXX</b>	
	Options	Comments on the report
<div data-bbox="219 592 866 636" style="border: 1px solid black; padding: 2px;"><b>I. Risks related to the type of contract / product</b></div> <p>I 1 Type of individual contract</p> <div data-bbox="219 823 866 868" style="border: 1px solid black; padding: 2px;"><b>II. Risks related to the "Client" and its contract</b></div> <p><u>The contracting parties</u></p> <p>I 2 Country of residence of the policyholder</p> <p>I 3 The policyholder is an individual and is different from the beneficial owner (other than the accepting beneficiary)</p> <p>I 4 The policyholder is a legal person</p> <p>I 5 Country of residence of the beneficial owner</p> <p>I 6 Country of residence of the insured person</p>	<p>a) Pure protection: 0  b) Savings and investment small amount: 0  c) Savings and investment other: 2  d) Bearer contract: 4</p> <p>a) GDL: 0  b) Other low risk countries: 0  c) Medium risk countries: 2  d) High-risk countries: 4</p> <p>a) Yes: 3  b) No: 0</p> <p>a) Yes: 2  b) No: 0</p> <p>a) GDL: 0  b) Other low risk countries: 0  c) Medium risk countries: 2  d) High-risk countries: 4  e) N/A (if the answers to I3 and I4 are no): 0</p> <p>a) GDL: 0  b) Other low risk countries: 0  c) Medium risk countries: 2  d) High risk countries: 4  e) N/A: 0</p>	<p><i>This form must be completed for any individual insurance contract as well as for any optional group insurance contract.</i></p> <p><i>see definitions in the glossary</i></p> <p><i>The term "Client" refers to both the policyholder and the <u>beneficial owner</u>, if the latter is different from the policyholder.</i>  <i>By "contracting parties" is meant the policyholder and the beneficial owner as well as the insured and beneficiaries as well as the corporate officers of these persons if they are legal persons.</i></p> <p><i>I2 In the case of several policyholders residing in different countries, the country with the highest risk should be used. If the policyholder is a legal person, the answer must relate to the place of the legal person's registered office only.</i></p> <p><i>I3 If the policyholder is a legal person, the answer should be "No".</i></p> <p><i>I5 In the case of several beneficial owners residing in different countries, the country with the highest risk should be considered.</i></p> <p><i>I6 In the case of several insured persons, the country with the highest risk should be considered.</i>  <i>"N/A": for "capitalisation" type contracts for which there is no insured life.</i></p>

17	Nationality of the policyholder	(a) Nationality of the country of residence: 0 b) Nationality of another low-risk country: 0 c) Nationality of a medium-risk country: 2 d) Nationality of a high-risk country: 4	<i>17 In the case of several policyholders, the country with the highest risk should be used.</i>
18	Nationality of the beneficial owner	(a) Nationality of the country of residence: 0 b) Nationality of another low-risk country: 0 c) Nationality of a medium-risk country: 2 d) Nationality of a high-risk country: 4 e) N/A (if the answers to I3 and I4 are no): 0	<i>18 In the case of several beneficial owners, the country with the highest risk should be selected.</i>
19	Nationality of the insured person	(a) Nationality of the country of residence: 0 b) Nationality of another low-risk country: 0 c) Nationality of a medium-risk country: 2 d) Nationality of a high-risk country: 4 e) N/A: 0	<i>19 In the case of several insured persons, the country with the highest risk should be used. "N/A": for "capitalisation" type contracts for which there is no insured life.</i>
I 10	The Client or the insured changed during the contract	a) Yes: 1 b) No: 0 c) N/A (in case of subscription): 0	<i>110 This refers to any change in policyholder, beneficial owner (other than the accepting beneficiary) or insured person. In individual insurance contracts, the change of insured normally implies the legal novation of the contract. If the change of insured person results in a new contract (with a new insurance policy number), this change will be considered as a new subscription to be processed on a new form.</i>
I 11	Proof documents establishing the identity of the Client and/or beneficiary have not been obtained/regularized	a) Yes: 4 b) No: 0	<i>111 The identity of the beneficiary or beneficiaries must be verified no later than the time the benefits are paid. The BC/FT Law and the CAA RGL (in its chapter 4) require companies to have a valid official document allowing the verification of the identity of the natural persons concerned by the operation. The conclusion of the contract with an expired or otherwise invalid identity document is unacceptable. If, when preparing for the conclusion of the contract (and therefore when completing this form), which is already referred to as "entering into a business relationship" in accordance with Article 3 (4) of the BC/FT Act, the insurance undertaking has provisionally accepted an invalid identity document, a positive answer is required. The company will then take the necessary steps to regularize the situation before the premium is accepted on its accounts or at the latest before sending its proposal to the policyholder and therefore before the contract is concluded and the form will be updated as soon as the required documents are received.</i>
I 12	A special arrangement (trust or legal structure) is included in the contract	a) Yes: 4 b) No: 0	<i>112 This includes, for example, a contract in which the client and/or the designated beneficiary is such an entity or legal arrangement or in which the underlying investments involve this type of special arrangement. This also applies to the case where this type of structure intervenes indirectly at the contract level (example: in a client's shareholding). The term "legal arrangement" generally includes any legal person which, in the country where it is established, either promotes anonymity or is not subject to corporation tax or is subject to a significantly more advantageous taxation regime than that to which goods and similar rights are subject in the customer's country of residence.</i>
I 13	The contract has been reported to the CRF of the Public Prosecutor's Office	a) Yes: 4 b) No: 0	
I 14	The Client or another party to the contract has been identified as being on a list of international financial sanctions	a) Yes: 4 b) No: 0	
I 15	The Client or his entourage or another party to the contract is classified as a PEP within the meaning of the BC/FT Act	a) Yes: 4 b) No: 0	<i>115 The natural persons surrounding the client referred to in art. 1 (9) of the BC/FT Act (the "members of their family" and "persons known to be closely associated").</i>

*116 Are considered as sensitive professions, those professions or activities particularly exposed to BC/FT risk through their exposure to particular risks of corruption, insider trading, the use of large amounts of cash payments (as indicated in particular in FIU analyses or FATF typology guides), etc.*

I 17 The background check of the Client revealed other risk factors  
 a) Yes: 4  
 b) No: 0

I 18 The Client has not completed/responded to all tax compliance requirements  
 a) Yes: 4  
 b) No: 0

I 19 The Client has taken out other life insurance policies with the same characteristics without any clear justification  
 a) Yes: 2  
 b) No: 0

**The premium(s)**

I 20 The banking institution from which the first premium or a subsequent premium originates/is to originate is located on/in a  
 a) GDL: 0  
 b) Other low risk countries: 0  
 c) Medium risk countries: 2  
 d) High-risk countries: 4

I 21 The banking institution from which the premiums originate/must originate is located in a country other than that of the Client's residence without any obvious economic justification  
 a) Yes: 3  
 b) No: 0

I 22 The premium is included (or tilts the contract) between 250,000 and 2,500,000 euros included  
 a) Yes: 1  
 b) No: 0  
 c) N/A: 0

I 23 The premium is higher than (or causes the contract to switch to more than) 2,500,000 euros  
 a) Yes: 2  
 b) No: 0  
 c) N/A: 0

I 24 The premium(s) or payment is/are paid in cash, by bearer cheque, by delivery of bearer securities or securities  
 a) Yes: 2  
 b) No: 0  
 c) N/A: 0

I 25 The contract provides for the possibility of free payments  
 a) Yes: 1  
 b) No: 0

I 26 The payments and their frequency do not correspond to the information provided at the time of subscription (respectively during the life of the contract)  
 a) Yes: 3  
 b) No: 0

*I17 This refers to the other elements of risk that the research has uncovered: a negative press around the professional activities of the client or his family, around his financial situation, or around an ongoing legal proceeding, etc. The answer should be "No" if the company has not carried out this type of control.*

*I18 Insurance companies have developed acceptance criteria for the tax compliance of the premium paid by the client. The purpose of this question is to ascertain whether these criteria have been met at the latest when the contract is concluded. A good practice is to obtain a tax compliance statement from the client that can be documented depending on the circumstances of the case.*

*I19 Investment contracts are covered. The answer is "yes" if the life insurance contract concerns a client who has already subscribed (with the same insurer or if known, with another insurer but within a very short period of time of this subscription) one or more other quasi-identical life insurance contract(s) as regards the contracting parties (policyholder, insured, beneficiary) or as regards the underlying investments (or investment strategies), which may create the suspicion that the client is trying to split his investment for a doubtful reason.*

*I20 In the case of several banking institutions established in different countries, the country with the highest risk should be used.*

*I24 This question concerns the physical delivery of cash, bearer securities or securities, cheques (e. g. bearer cheques or endorsed cheques), traveller cheques or any other means of payment, which does not establish a direct and traceable economic link between the policyholder or beneficial owner of the life insurance contract and the premium or payment (and which, as stated in the 4th Directive 2015/849/EC and the FATF guides, "promotes anonymity"). A bank cheque drawn on the customer's account that bears the account number and the customer's name does not therefore fall into this category.*

*I25 Payment at the discretion of the policyholder which cannot be refused by the insurance company.*

I 27 The premium(s) contain(s) atypical elements

a) Yes: 3  
b) No: 0

**The beneficiary clause and other terms and conditions of the contract**

I 28 The beneficiary clause is not exclusively established in favour of family members and/or in favour of a banking institution to guarantee the repayment of a loan

a) Yes: 1  
b) No: 0  
c) N/A: 0

The beneficiary clause is established in favour of a legal person outside the

a) Yes: 1

I 29 circumstances referred to in question I 28 or a de facto association or a work of art of charity other than tax-recognized charities

b) No: 0  
c) N/A: 0

I 30 The beneficiary clause is established in favour of a natural person if the contract is subscribed by a legal person

a) Yes: 2  
b) No: 0  
c) N/A: 0

I 31 The beneficiary clause for the benefit of a person other than those referred to in question I 28 or for the benefit of a person referred to in question I 29 has been accepted by / made irrevocable

a) Yes: 2  
b) No: 0  
c) N/A: 0

I 32 The contract has been pledged to a natural or legal person other than a banking institution

a) Yes: 2  
b) No: 0  
c) N/A: 0

I 33 The contract is assigned or its rights are transferred to a third party without any plausible link or justification

a) Yes: 2  
b) No: 0

I 34 The policyholder has designated a correspondence address other than his home address

a) Yes: 1  
b) No: 0

**The underlying investments**

I 35 The Client has requested an investment of its premium in unlisted instruments (> 50% of the issue of unlisted securities)

a) Yes: 4  
b) No: 0  
c) N/A: 0

I 36 The Client has requested an investment of its premium in unlisted instruments (between 10 and 50 % of the issue of unlisted securities)

a) Yes: 2  
b) No: 0  
c) N/A: 0

*I27 The payment of the premium(s) may have a number of other anomalies:*

*- the premium is paid by "a third party" (other than the intermediary): this is any person other than the policyholder himself. This may therefore be the beneficial owner of the contract, or a third party in relation to the policyholder and beneficial owner; for example: the debtor of the policyholder / beneficial owner, who settles a debt by paying the premium of the policyholder / beneficial owner's contract; the beneficiary of a cheque may endorse an uncrossed cheque in favour of a new beneficiary; etc.*

*A family member of the policyholder is therefore also to be considered as a third party in this context.*

*- The premium announced in the subscription form is significantly lower than the premium received or is not paid according to the terms notified in the subscription form. It is possible that the client chooses to pay his premium in kind (by transfer of securities), in which case a variation in the amount of the premium is possible according to market developments between the time the subscription form is completed and the arrival of the premium on the insurance company's account. In this case, the value of the announced premium will be considered disproportionate to the premium received if there is a difference of more than 10%.*

*It should also be indicated here if the premium is paid from an account in another bank or country than notified.*

*- There was an additional payment without an application or additional payment slip;*

*- The premium(s) are disproportionate in view of the client's economic and financial situation.*

*I28 The notion of family is to be interpreted in a broad sense and includes new forms of partnership.*

*Capitalization contracts or certain life insurance contracts in some jurisdictions (such as the United Kingdom) do not contain profit clauses. For these contracts, the company answers 'N/A' to this question and to questions I29, I30 and I31.*

*I29 It is the policyholder's responsibility to provide proof of tax recognition of a charity; in the absence of such proof, a charity shall be deemed not to be recognized for tax purposes.*

*I33 If the assignment of the contract results in a new contract (with a new insurance policy number), this change will be considered as a new subscription and will be processed on a new form.*

*I34 The correspondence address that may be the company's address (the so-called "remaining post" or "hold-mail"), the address of a third party (which may be the intermediary) or a post office box.*

*I35 Investment allowing the client to exercise a right of control over the unlisted instrument (shares, company shares, etc.).*

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### III. Risks related to the distribution of life insurance contracts

- I 38 The distribution of the contract took place through an intermediary established in a high-risk country  
a) Yes: 3  
b) No: 0  
c) N/A: 0
- I 39 The intermediary resides in a State (except GDL) other than the Client  
a) Yes: 1  
b) No: 0  
c) N/A: 0
- I 40 The intermediary of the contract has been changed at the Client's initiative  
a) Yes: 1  
b) No: 0  
c) N/A: 0
- I 41 The intermediary is authorised to collect the premium(s) or to pay the benefits of the contract  
a) Yes: 2  
b) No: 0  
c) N/A: 0
- I 42 The distribution of the contract took place via the Internet or another "remote" means  
a) Yes: 4  
b) No: 0

### IV. Benefit payments

- I 43 The contract was terminated during the waiver period  
a) Yes: 2  
b) No: 0
- I 44 Number of repurchases over the last two years  
a) between zero and 3: 0  
b) more than 3: 3
- I 45 One payment resulted in economically disproportionate penalties  
a) Yes: 3  
b) No: 0  
c) N/A: 0
- I 46 The payment had to be split and paid into more than that of beneficiaries or follows several reconciled redemptions with payments on different accounts  
a) Yes: 4  
b) No: 0
- I 47 The banking institution to which the payment of a service has been made is located in a  
a) GDL: 0  
b) Other low risk countries: 0  
c) Medium risk countries: 2  
d) High risk countries: 4  
e) N/A: 0
- I 48 There is no apparent economic link between the residence of the payee and the State of establishment of the banking institution to which the payment was made or intended  
a) Yes: 2  
b) No: 0  
c) N/A: 0
- I 49 The change of the beneficiary clause is executed within the 6 months preceding the expiry of the contract  
a) Yes: 2  
b) No: 0  
c) N/A: 0

I38 If no intermediary has been involved, you answer with N/A.

I39 If no intermediary has been involved, you answer with N/A.

I40 If no intermediary has been involved, you answer with N/A.

A change of insurance agent within the same insurance company is not to be considered as a change of intermediary in this context.

I41 If no intermediary has been involved, you answer with N/A.

I42 This refers to cases where there is no face-to-face meeting between the client and the insurance company or the client and the intermediary.

I43. "Benefit payments" refers both to movements relating to surrenders (whether partial or total) and renunciations of the contract and benefit payments on the occurrence of the event.

I44 This includes unscheduled redemptions.

I47 In the case of several banking institutions established in different countries, the country with the highest risk should be used.

I 50 One payment presented another atypical element

a) Yes: 4  
b) No: 0

*I50 The payment may have some anomalies, e. g.:*  
*- The payment is paid by or to be paid by a third party (other than the intermediary);*  
*- A redemption is preceded by additional payment(s) and other redemptions in the same year;*  
*- A death benefit that must be paid to a third party at the request of the beneficiary.*

**V. Miscellaneous**

I 51 The file contains another atypical element

a) Yes: 4  
b) No: 0

*I 51 Please answer this question in the affirmative when you have encountered one or more atypical elements bearing a higher risk, which is not included in the other questions, when entering into a relationship and before accepting the subscription.*

*This includes, for example, the following:*

*- A contract subscription at abnormal and/or unfavourable pricing conditions;*

*- A subscription based on altered, inconsistent supporting documents (such as a notarized deed of sale altered or for which the amount of sale indicated is significantly lower than the premium paid, or for which the dates are not consistent, etc.) ;*

*- An unusually long (more than 6 months) and unexplained delay between the completion of the subscription form and the actual payment of the premium, several changes to the form during this delay (e.g. the amount or terms of payment of a premium that change several times);*

*- An irregularity in the distribution of the contract (e.g. an intermediary who has "disappeared" during the relationship);*

*- A contract subscription with the intention of assigning the rights to a third party (other than a banking institution);*

*- The client is willing to take a high risk of legal/tax recharacterization of his contract;*

*and any other criteria in Annex III of the 4th Directive 2015/849/EC insofar as they have not yet been taken into account elsewhere;*

*- negative information about a party to the contract (including the intermediary).*

**Annex I b) : Group life insurance contract**

<b>Contract number</b>	<b>XXXX XXXX XXXX XXXX</b>
<b>Date of last evaluation</b>	<b>XX/XX/20XX</b>
<b>Current contract score</b>	<b>XXX</b>

	Options	Comments on the report
<p><b><u>I. Risks related to the type of contract / product</u></b></p> <p>G 1 Type of group contract</p> <p><b><u>II. Premium risks</u></b></p> <p>G 2 There is an overrun of the tax deductibility threshold</p> <p>G 3 There was a premium payment with excessive catch-up for the back service</p> <p>G 4 The banking institution from which the first premium or a premium comes/should come is implemented at/in a</p> <p>G 5 Premiums do not/shall not come from either the policyholder's account or the accounts of the affiliates</p>	<p>a) Regulated and registered plans: 0                      b) Contracts without savings element: 0                      c) Other group contracts: 1</p> <p>a) Yes: 1                      b) No: 0                      c) N/A: 0</p> <p>a) Yes: 1                      b) No: 0</p> <p>(a) GDL: 0                      b) Other low risk countries: 0                      c) Medium risk countries: 2                      (d) High-risk countries: 4</p> <p>a) Yes: 2                      b) No: 0</p>	<p><i>The term "Client" refers to both <u>the policyholder</u> and the policyholder's beneficial <u>owner</u>.</i></p> <p><b><i>This form must be completed for any group insurance contract regardless of whether it is an open or closed group, an automatic or optional membership. In the event that purely optional memberships are permitted, an individual form must be drawn up for each membership in addition to this form.</i></b></p> <p><i>G2 Reference is made to the tax thresholds mentioned in the Income Tax Act (ITA), art. 110 ITA.</i></p> <p><i>G3 See Law ITA 111 - 111 bis.</i></p> <p><i>G4 In the case of several banking institutions established in different countries, the country with the highest risk should be used.</i></p>

**III. Risks related to the contracting parties**

<p>G 6 Policyholder's registered office is at/in a</p>	<p>a) GDL: 0 b) Other low risk countries: 0 c) Medium risk countries: 2 d) High-risk countries: 4</p>	
<p>G 7 Country of residence of the beneficial owner (other than affiliates)</p>	<p>a) GDL: 0 b) Other low risk countries: 0 c) Medium risk countries: 2 d) High risk countries: 4 e) N/A: 0</p>	<p><i>G7 In the case of several beneficial owners residing in different countries, the country with the highest risk should be used. N/A for example if the policyholder is a company listed on a stock exchange and subject to disclosure requirements (by stock market rules, law or other binding means), including the obligation to ensure sufficient transparency of beneficial owners.</i></p>
<p>G 8 Nationality of the beneficial owner (other than affiliates)</p>	<p>a) GDL: 0 b) Other low risk countries: 0 c) Medium risk countries: 2 d) High risk countries: 4 e) N/A: 0</p>	
<p>G 9 The group contract is an unregulated plan and includes only one affiliate</p>	<p>a) Yes: 2 b) No: 0</p>	
<p>G 10 A special arrangement (trust or construction) is included in the contract</p>	<p>a) Yes: 4 b) No: 0</p>	<p>G10 This includes, for example, a contract in which the client and/or the designated beneficiary is such an entity or legal arrangement, or in which the underlying investments involve this type of special arrangement. This also applies to the case where this type of structure intervenes indirectly at the contract level (example: in a client's shareholding). The term "legal structure" generally includes any legal person which, in the country where it is established, either promotes anonymity or is not subject to corporation tax or is subject to a significantly more advantageous than the one to which goods and similar rights are subject in the customer's country of residence.</p>
<p>G 11 The contract has been reported to the CRF of the Public Prosecutor's Office</p>	<p>a) Yes: 4 b) No: 0</p>	
<p>G 12 The client or other party to the contract has been identified as being on a list of international financial sanctions</p>	<p>a) Yes: 4 b) No: 0</p>	
<p>G 13 The client or his entourage or another party to the contract is classified as a PEP within the meaning of the BC/FT Act</p>	<p>a) Yes: 4 b) No: 0</p>	<p>G13 The natural persons surrounding the Client referred to in art. 1 (9) of the BC/FT Act (the "members of their family" and the "persons known to be closely associated") must be considered as "entourage".</p>

G 14 The client is active in a sensitive sector

- a) Yes (Moderately sensitive): 2
- b) Yes (Very sensitive): 4
- c) No: 0

G 15 Proof documents establishing the identity of the client have not been obtained/regularized

- a) Yes: 4
- b) No: 0

**IV. Risks related to distribution**

G 16 The distribution of the contract took place through an intermediary established in a high-risk country

- a) Yes: 3
- b) No: 0
- c) N/A: 0

G 17 The intermediary of the contract has been changed

- a) Yes: 2
- b) No: 0
- c) N/A: 0

G 18 The intermediary is authorised to collect the premium(s) or to pay for services under the contract

- a) Yes: 2
- b) No: 0
- c) N/A: 0

G 19 The distribution of the contract took place via the Internet or another "remote" means

- a) Yes: 3
- b) No: 0

**V. Payments to be made**

G 20 The payment is paid or to be paid into an account of an institution established in a high-risk country

- a) Yes: 3
- b) No: 0

There is no apparent economic link between the residence of the recipient of the

- a) Yes: 3

G 21 payment and the State of establishment of the banking institution to which the payment is made carried out or intended

- b) No: 0

G 22 The payment has another atypical element

- a) Yes: 4
- b) No: 0

*G14 Are considered as sensitive professions, those professions or activities particularly exposed to BC/FT risk through their exposure to particular risks of corruption, insider trading, the use of large amounts of cash payments (as indicated in particular in FIU analyses or FATF typology guides), etc.*

*G16 If no intermediary has been involved, you answer with N/A.*

*G17 If no intermediary has been involved, you answer with N/A.  
A change of insurance agent within the same insurance company is not to be considered as a change of intermediary in this context.*

*G18 If no intermediary has been involved, you answer with N/A.*

*G19 This covers cases where there is no face-to-face meeting between the client and the insurance company and/or the client and the intermediary.*

*V. Payments" refers to transactions relating to surrenders (whether partial or total"), contract waivers and benefit payments.*

*G22 The payment may have some anomalies, e. g.:*  
*- The payment is paid by or to be paid by a third party (other than the intermediary);*  
*- A redemption is preceded by additional payment(s) and other redemptions in the same year;*  
*- A death benefit that must be paid to a third party at the request of the beneficiary;*  
*- The contract is terminated during the cancellation period;*  
*- The redemption/transfer takes place within two years of subscription.*

**VI. Miscellaneous**

G 23 The file contains another atypical element

a) Yes: 4  
b) No: 0

*G23 Please answer this question in the affirmative when you have encountered one or more atypical elements representing a higher risk, which is not included in the other questions, at the time of entering into the relationship and before the acceptance of the subscription or movement.*

*This includes, for example:*

- Premiums paid not via the policyholder's account, but via an account of a third party other than the intermediary (for example via an account of the economic beneficiary,...);*
- A contract subscription at abnormal and/or unfavourable pricing conditions;*
- An irregularity in the distribution of the contract (e. g. an intermediary who has "disappeared" during the first contact);*
- Negative information about a party to the contract (including the intermediary).*

## Annex I (c): Insurance proposals refused by the company

**Date of the proposal:**

XX/XX/20XX

**Proposal number:**

XXXX XXXX XXXX XXXX

R 1	Type of contract offer refused by the company	a) Individual insurance b) Group insurance
R 2	Country of residence of the candidate policyholder	a) GDL b) Other low risk countries c) Medium risk countries d) High-risk countries
R 3	Reason for rejection of the proposal	a) Refusal on grounds of BC/FT b) Refusal for other reasons
R 4	In the event of a refusal for BC/FT reasons, was the decision to refuse formulated by the acceptance committee?	a) Yes b) No
R 5	In the event of a refusal for BC/FT reasons, did the refusal lead to a denunciation to the public prosecutor's office?	a) Yes b) No

23/10/2018/1

Annex I (c)

## Annex II: Implementation of a risk-based approach for the review of the stock of individual contracts

- approach which should make it possible to detect at the level of the stock of contracts of each company the contracts which fall within a high BC/FT risk level on the basis of 10 selected risk factors
- Selection criteria for the 10 risk factors: constitutes the "common denominator" of the risk factors that can be used from the management systems of the 6 companies that participated in the AML/CFT field test organised by the CAA
- existing contracts, which are already classified as "enhanced vigilance" at the level of the insurance undertaking, also require a systematic manual review and are therefore not eligible for the "model point" approach

### **Approach adopted:**

→ manual review of the contract if

- 1) Isolated risk factor with a score of 4 or
- 2) Combination of 2 risk factors with a cumulative score of 4 (or more) or
- 3) Cumulation of 3 risk factors (score > 4)

→ eligible for the "model point" approach otherwise (unless the contract is already classified as "enhanced due diligence")

**Selected risk factors** (see Annex I a): Individual life insurance policy):

Risk factors	Score
Type of contract (I1)	0-2-4
Residence tenant (I2)	0-2-4
Type of policyholder (I4)	0-2
CRF declaration (I13)	0-4
List of "Financial penalties" (I14)	0-4
EPP" classification (I15)	0-4
Premium/contract amount (I22/I23)	0-1-2
Investment in unlisted instruments (> 50%) (I35)	0-4
Remote business relationship (I42)	0-4
Number of redemptions (I44)	0-3

1) **Isolated risk factors** that lead to a systematic manual review (score 4)

- Bearer contract
- Residence in high-risk country
- CRF declaration
- "Financial sanctions" list
- "EPP" classification
- Investment in **unlisted** instruments (> 50%)
- Remote business relationship

2) **Combinations of 2 risk factors** that result in a systematic manual review (cumulative score of 4 or more)

- Other savings and investment + Residence in medium-risk countries
- Savings and investment other + Legal entity policyholder
- Savings and investment other + Premium/contract amount (> EUR 2,500,000)
- Savings and other investments + Number of redemptions > 3 (over 2 years)
- Residence in medium risk country + Legal entity tenant
- Residence in a medium-risk country + Premium/contract amount (> EUR 2,500,000)
- Residence in medium-risk country + Number of repurchases > 3 (over 2 years)
- Corporate policyholder + Number of redemptions > 3 (over 2 years)
- Legal entity policyholder + Premium/contract amount (> EUR 2,500,000)
- Premium/contract amount + Number of redemptions > 3 (over 2 years)

3) Cumulation of 3 risk factors leads to a systematic manual review, because the **cumulative score is higher than 4**

## General terminology

AML/CFT	Anti-money laundering and terrorist financing
AML/CFT risk-based monitoring model	AML/CFT risk-based approach in which the intensity and frequency of AML/CFT supervision of insurance undertakings shall be determined on the basis of the risk assessment of BC/FT to which these insurance companies are exposed
BC/FT	Money laundering and terrorist financing
BC/FT Act	The amended law of 12 November 2004 on the fight against money laundering and against the financing of terrorism
BC/FT risk	Risk of exposure to money laundering and terrorist financing. Refers to the level of inherent BC/FT risk before mitigation.
BC/FT risk factors	Variables that, individually or in combination, can increase or decrease the BC/FT risk posed by a business relationship or insurance contract.
CAA Regulation	The Regulation of the Commissariat Aux Assurances N° 13/01 of 23 December 2013 on the fight against money laundering and terrorist financing
Client/Customer	In the context of the questionnaires, the term "Client" refers both to the policyholder and to the beneficial owner, if the beneficial owner is different from the policyholder.
Contracting parties	In the context of the questionnaires, the term "parties to the contract" means both the policyholder and the beneficial owner as well as the insured and beneficiaries and the corporate officers of these persons if they are legal entities.
CRF	Financial Intelligence Unit of the Public Prosecutor's Office in Luxembourg
EAS	"European Supervisory Authorities", i. e. the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority
Effective beneficiary	As defined in Art. I (7) of the BC/FT Act.  Art. I (7) of the BC/FT Act designates as beneficial owner " <i>any natural person who ultimately owns or controls the client or any natural person for whom a transaction is executed or an activity carried out (...)</i> ".  The CAA considers that a beneficiary accepting or irrevocable an insurance contract falls within the scope of the above-mentioned article of the law.
EPP	"Politically exposed person" as defined in Art. 1 (9-12) and Art. 3-2(4) of the BC/FT Act
GDL	Grand Duchy of Luxembourg

Legal structure	<p>By legal construction is meant:</p> <ul style="list-style-type: none"> <li>-• a legal relationship (without legal personality), promoting anonymity or not, created by an act of the founder, by which property or rights are placed under the control of an administrator in order to administer them in the interest of one or more beneficiaries or for a specific purpose; or</li> <li>-• a legal person which, in the country where it is established, either promotes anonymity or is not subject to income tax or is subject to a significantly more advantageous taxation regime than that to which goods and similar rights are subject in the Customer's country of residence.</li> </ul>
Movement / Significant change	<p>The CAA considers that the transactions and changes listed below require the questionnaire to be updated in accordance with point 3.3 of the Circular Letter. It is up to each insurance undertaking to take into account, where appropriate, additional types of "movements" or "significant changes".</p> <p><u>Movements</u>: an additional payment (excluding contract payments), a partial/total buyback (excluding scheduled buybacks), a benefit payment (e. g. death), an advance on the contract, etc.</p> <p><u>Significant changes related to the contract</u>: a change in the beneficiary clause, a guarantee, an assignment, a change of a party to the contract, a change of a party to the contract, etc.</p> <p>contract, a change in coverage,...</p> <p><u>Significant changes related to the change in a risk factor</u>: a party to the contract becomes a PEP, a party to the contract appears on a list of international financial sanctions, a party to <u>the</u> contract has been the subject of a suspicious transaction report to the FIU or a request from a foreign authority, the client is engaged in a (new) sensitive activity, the client has changed address (other country), a change of intermediary (excluding change insurance agent of the same company),...</p>
Risk countries	<p>The CAA uses 3 categories of risk in the questionnaires:</p> <ul style="list-style-type: none"> <li>-• Low risk countries (GDL or other low risk countries)</li> <li>-• Medium risk countries</li> <li>-• High-risk countries</li> </ul> <p>If your company uses a 4-level country rating scale, you should consider your levels 2 and 3 as "Medium Risk Countries".</p> <p>If your company uses a 2-level country rating scale, you should enter the risk categories "Low Risk Countries" and "High-risk countries".</p> <p>Also to be considered are Annexes III and IV of the BC/FT Act and Article 6 (1) of the CAA Regulation.</p>



Appendix I a) : Individual life insurance contract

Contracts "at carrier" means	Regardless of the other characteristics of the contract, the fact that it favours the anonymity of the policyholder and/or beneficiaries, it presents a high risk and requires increased vigilance.
The contracts "Pure protection"	These are life insurance contracts covering death, certain disabilities or attacks on the physical integrity of the person, which often require medical evidence, do not include an element of savings or investment and which are generally financed by (modest) bonuses regular. They are part of the simplified vigilance. (e. g. outstanding balance insurance in favour of a bank, covering the amount borrowed) As soon as a contract has a savings element, it should be classified in one of the 3 other categories listed below. It should also be noted that a life insurance contract with death or disability benefits should be classified in the category of contracts of the "Savings and investment other" type "if the service exceeds €2.5 million or, for contracts that have been running for less than 10 years, if the ratio between the policy liabilities and the benefit is greater than or equal to 20%.
The contracts "Low savings and investment amount" means	These are savings or investment insurance contracts, including the premium not exceed 1000 euro or whose single premium does not exceed 2500 euros. Contracts whose premiums exceed these thresholds but remain below or equal to the tax deductible ceiling in Luxembourg may also be classified in this category. In the case of contracts that are initially classified in the simplified vigilance category, other risk factors (such as the Client underwriting several small-value contracts) may increase the risk and reinforce the required vigilance.
The contracts "Other savings and investment"	These single premium, regular or free payment contracts are contracts that typically target savings and investment flexibility, allowing redemptions and transfers. They require standard initial vigilance. (e.g. a unit-linked life insurance policy whose premiums exceed the tax deduction)

Annex I b) : Group life insurance contract

"Contracts without savings element"	Group life insurance contracts that do not include any savings components or investment.
"Regulated and registered plans "	Group life insurance contracts regulated and registered with the General Inspectorate of Social Security (IGSS) in Luxembourg
"Other group contracts" means	Any group life insurance policy that does not fit into the other two categories above.