INSURANCE AND PENSIONS COMMISSION

HANDBOOK ON

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM FOR THE INSURANCE AND PENSIONS INDUSTRY IN ZIMBABWE

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DISCLAIMER

This Handbook is for guidance purposes only and not intended to be an exhaustive manual. For detailed guidance, players are required to check with the relevant Acts, guidelines, directives, and FATF standards.

CONTENTS

ABBREVIATIONS

AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CFT	Countering Financing of Terrorism
CDD	Customer Due Diligence
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
KYC	Know Your Customer
MLPC ACT	Money Laundering and Proceeds of Crime Act [9:24]
PEP	Politically Exposed Person
IPEC	Insurance and Pensions Commission
UBO	Ultimate Beneficial Owner

DEFINITIONS

Money Laundering : the process of taking the proceeds of criminal activity and making them appear legal or legitimate.

Terrorist financing : raising, moving, storing and using financial resources for the purpose of terrorism.

Politically Exposed Person any person who is or has been entrusted with public functions especially at senior and executive levels.

Suspicious Transaction: a financial transaction that is inconsistent with known legitimate sources of income

1. INTRODUCTION

This Handbook has been developed to assist the insurance and pension funds institutions in meeting their obligations under the Money Laundering and Proceeds of Crime Act [Chapter 9:24]. The insurance and pensions industry is at risk of being misused for money laundering (ML) and terrorist financing (TF) activities. Products and services offered in the sector can provide an opportunity for such criminal activities. Consequently, sector players can be involved knowingly or unknowingly in ML/T activities thus exposing it to serious legal, operational and reputational risks.

2. OBJECTIVES OF THE HANDBOOK

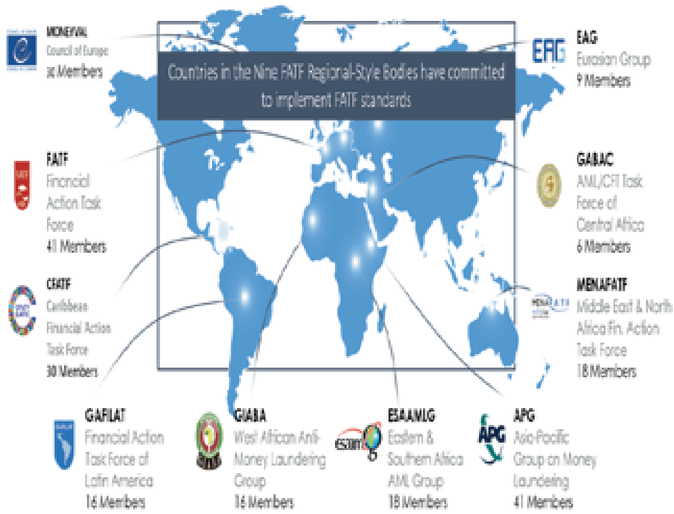
As a competent supervisory authority designated in paragraph 10 of Part II of the First Schedule of the Money Laundering and Proceeds of Crime Act, IPEC has published this handbook to assist the insurance and pensions sector with the following:

- Understanding of AML/CFT sector obligations;
- Easy-to-understand requirements under AM/LCFT legislation in Zimbabwe and FATF standards;
- Summary of FATF requirements and standards;
- Defence mechanisms that may be used to combat AML/CFT risks; and
- Highlights of the dangers of failure to comply with AML/CFT requirements in the insurance and pensions industry

3. INTERNATIONAL INITIATIVES TO COMBAT CORRUPTION, MONEY LAUNDERING AND TERRORIST FINANCING

The Financial Action Task Force (FATF) is the global money laundering and terrorist financing supervisory body. It is an independent intergovernmental agency established in 1989 to develop and promote international cooperation for combating money laundering and financing of terrorism. Since then, there has been FATF-style regional bodies (FSRBs) established with the aim of combating money laundering by implementing the FATF Recommendations (see Figure 1).

FIGURE 1: FATF-STYLE REGIONAL BODIES IN THE WORLD



Zimbabwe is a member of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG). ESAAMLG, along with other similar regional groups, is an associate member of the Financial Action Task Force (FATF).

4.FATF RECOMMENDATIONS IN BRIEF

FATF Standards are based on its 40 Recommendations, Interpretative Notes and Assessment Methodology. These "recommendations" are backed by internationally binding instruments such as United Nations Conventions and Security Council Resolutions. However, of the 40 recommendations issued by FATF, the following are most relevant for the Insurance and pensions industry and must be observed:

- R1: ML/TF Risk Assessment and the Risk-Based Approach
- R7/8: Targeted Financial Sanctions Relating to Terrorism, Terrorist Financing and Proliferation
- R10: Customer Due Diligence
- R11: Record-keeping requirements
- R12: Requirements relating to Politically Exposed Persons
- R15: Requirements relating to new technologies
- R17: Reliance on Customer Due Diligence by third parties
- R18: AML/CFT internal controls, foreign branches and subsidiaries
- R19: Requirements relating to high risk countries
- R20: Reporting of Suspicious Transactions.
- R21: Prohibition against tipping off and protection of confidentiality
- R24/25 Transparency and Beneficial Ownership of Legal Persons or Legal Arrangements

5. AML/CFT LEGAL FRAMEWORK IN ZIMBABWE

The primary enabling legislation is the Money Laundering and Proceeds of Crime Act [Chapter 9:24] (hereafter referred to as the MPLC Act). Other supporting legislation are as follows:

- Suppression of Foreign and International Terrorism Act [Chapter 11:21].
- S.I. 76 of 2014 on the implementation of the United Nations Security Council Resolutions (UNSCR):-
- 1267 and its Successor Resolutions
- 1373 and its Successor Resolutions
- S.I. 56 of 2019 on implementation of UNSCR 1540 – Proliferation of Weapons of Mass Destruction.
- Various Acts which deal with predicate offences related to ML.
- Companies and Other Business Entities Act and the Deeds Registries Act.
- Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24].
- Criminal Matters (Mutual Assistance) Act, [Chapter 9:06], Criminal Procedure and Evidence Act [Chapter 9:07].
- Criminal Law (Codification and Reform) Act [Chapter 9:23].
- Extradition Act [Chapter 9:08].
- Exchange Control Act, [Chapter 22:05].
- Anti-Corruption Commission Act, [Chapter 9:22].

. Private Voluntary Organisation Act [Chapter 17:05].

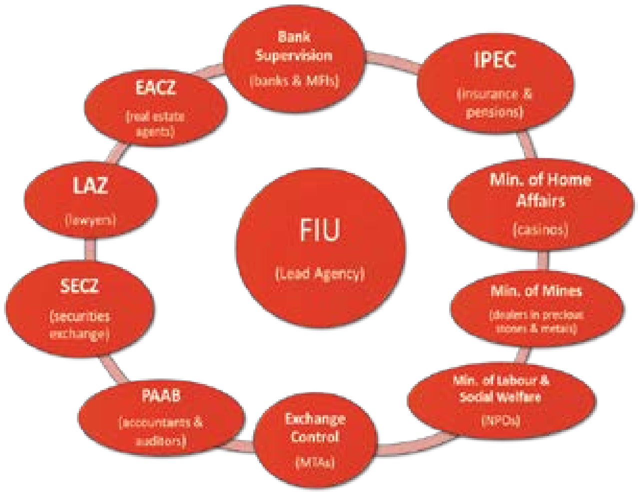
. Medicines and Allied Substances Control Act [Chapter].

. Dangerous Drugs Act, Human Trafficking Act [Chapter].

5.1 The AML/CFT Regulatory Bodies in Zimbabwe

In terms of the MLPC Act, there are several designated competent AML/CFT regulators in Zimbabwe with the Financial Intelligence Unit (FIU) being the central lead agency as illustrated in Figure 2.

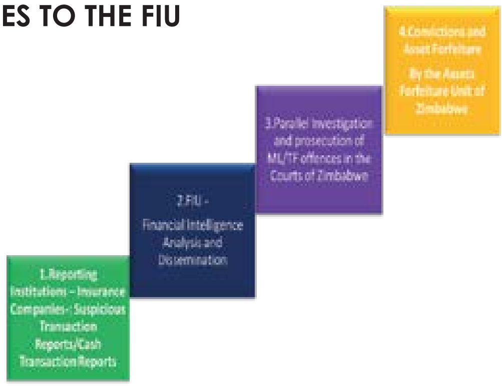
FIGURE 2: AML/CFT REGULATORS IN ZIMBABWE



5.2 Functions of the Financial Intelligence Unit (FIU)

The FIU is the lead agency in terms of AML/CFT regulation and supervision in Zimbabwe and it uses information from other sectors of the economy including the insurance sector. Upon receipt of such reports, FIU officials investigate the reports before escalation to the courts of law for adjudication where applicable (Figure 3).

FIGURE 3: ESCALATION OF REPORTED CASES TO THE FIU



6.DANGERS OF ML/TF TO THE INSURANCE SECTOR

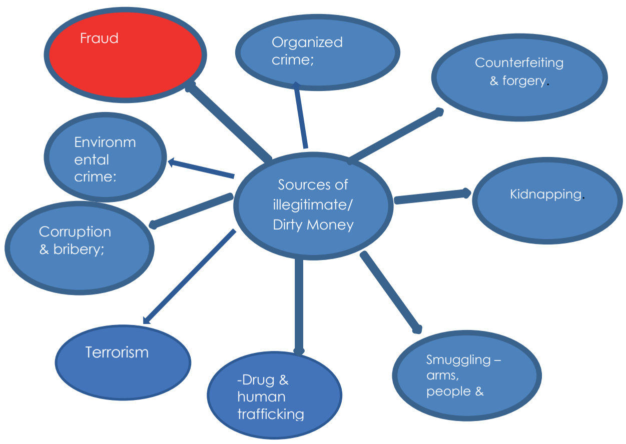
If not effectively managed, ML/TF issues present several practical challenges not only at country level but at company level as outlined in Figure 4, below:

FIGURE 4: DANGERS OF ML/TF TO THE INSURANCE & PENSIONS INDUSTRY

7. SOURCES OF "DIRTY" MONEY

There are various ways in which dirty money can be sourced. Technically known as predicate offences, these sources are shown in Figure 5:

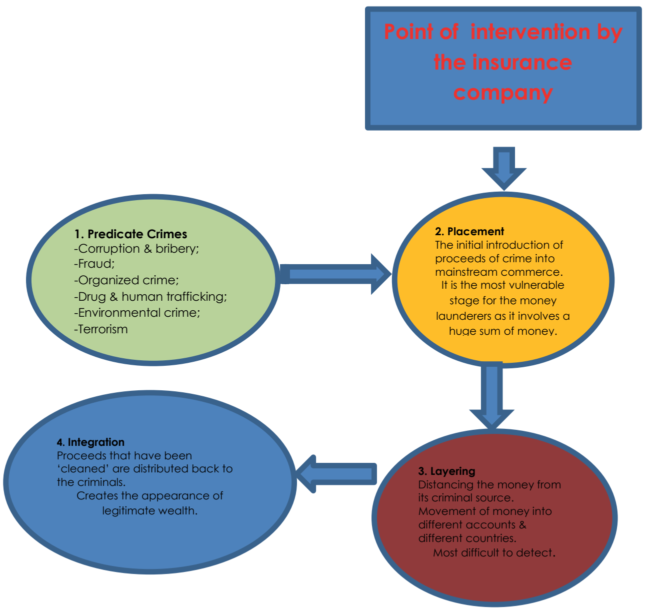
FIGURE 5: SOURCES OF ILLEGAL MONEY



8. STAGES IN MONEY LAUNDERING

For Money Laundering to be adequate, there are various stages in which the money goes through, as shown in the process flow in Figure 6. Insurance companies' especially front office staff, are required to be vigilant on Stage 2 to ensure dirty money is not "cleaned" in their offices.

FIGURE 6: STAGES OF LAUNDERING ILLEGAL MONEY



9. ILLUSTRATION OF MONEY LAUNDERING IN THE INSURANCE SECTOR

To further guide players, especially front office staff, money laundering occurs through various products and is then withdrawn through claims and premium refunds (See Figure 7).

FIGURE 7: MONEY LAUNDERING IN THE INSURANCE SECTOR

10. DIFFERENCES BETWEEN MONEY LAUNDERING AND TERRORIST FINANCING

Although ML and TF are normally associated, there are two major differences as illustrated in Table 1, below:

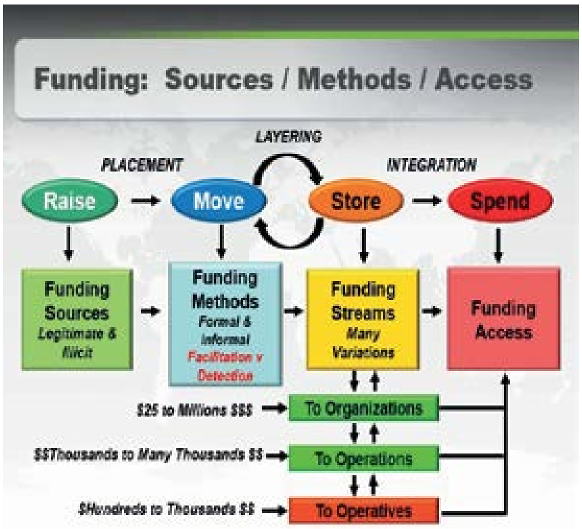
TABLE 1: DIFFERENCES BETWEEN MONEY LAUNDERING AND TERRORIST FINANCING

Item	1.Main Objective??	2.Source of Funding??	3. Quantum of Funds??
Money Laundering(ML)	Cleaning the origin of proceeds of crimes.	Always from illegal funds	Normally huge
Terrorist Financing(TF)	Funding terrorist activities	Illegal funds + legitimate source of funds	Can be small

11. TERRORIST FINANCING

Terrorists need financial support to carry out their activities and to achieve their goals. Terrorist financing is the process by which terrorists fund their operations in order to perform terrorist acts (see Figure 8 below).

FIGURE 8: THE PROCESS OF TERRORIST FUNDING

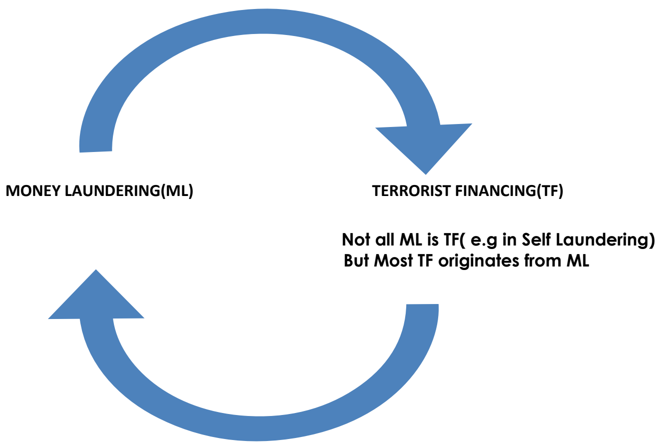


Insurance companies should put measures in place to ensure that they are not used to either fund or be used as a channel to fund terrorist activities.

12. THE LINK BETWEEN MONEY LAUNDERING AND TERRORIST FINANCING

Despite the differences highlighted earlier, ML and TF are linked in that most TF is sourced from ML as highlighted in Figure 9 below:

FIGURE 9: LINKING MONEY LAUNDERING AND TERRORIST FINANCING



13. OVERVIEW OF ML/TF INDICATORS AND COMPLIANCE REQUIREMENTS FOR THE INSURANCE AND PENSIONS INDUSTRY

In order to enhance ML/TF vigilance in the industry, it is essential to discuss key risk indicators and the compliance requirements. These are summarized in Table 2.

TABLE 2: RISK FACTORS OF ML/TF IN THE INSURANCE AND PENSIONS SECTOR

INDICATOR	EXAMPLES	REQUIRED COMPLIANCE MEASURES
1.Suspicious Transactions	• Transactions Which Do Not Make Economic Sense • Transactions Involving Large Sums • Transactions Involving Transfers Abroad • Transactions Involving Unidentified Parties /Third Parties	• The requirement for all regulated players to file Suspicious Transaction Reports with the Financial Intelligence Unit every on a per-need basis and every month including Nil report • Know Your Customer and Customer Due Diligence requirements • Directive AMLCFT 3/7/2015 require insurers to notify all bulk cash payments above USD$5000.00
2.High-Risk Customers	• PEPS, • UN Security Council List	• Know Your Customer and Customer Due Diligence requirements • Circulation of UN Security Council Al-Qaeda Sanctions List within 24hours of receipt and blacklist such persons
3. Product/ Service/Transaction Risk	Products with an investment element Annuities	• Apply enhanced Know Your Customer and Customer Due Diligence requirements
4.Lack of Awareness in IPEC and the Insurance Sector	Lack of awareness of AMLCFT by: • The board of directors • Management and Staff • Anti-money Laundering Reporting Officer	• Appointment of Anti-money Laundering Reporting Officers who are competent in AMLCFT assessments and reporting to the Board • Institutional Risk Assessments • All budgets must have AMLCFT items • Training • National Risk Assessments with players heavily involved
5. Clients from high-risk countries or regions(Geographical Risk)	• Iran, Afghanistan, North Korea, Iran, Ethiopia	• Apply enhanced Know Your Customer and Customer Due Diligence requirements • Report to FIU for further investigation

14. TYPICAL ML RED FLAGS IN THE INSURANCE SECTOR

FATF guidelines give priority to ML risks mainly in the life insurance sector. However, other insurance sector players should self-test guided by the following variables and other red flags, applicable to their own sector:

14.1 Transactions Which Do Not Make Economic Sense

i) A customer relationship with the direct life insurer that does not appear to make economic sense, for example, the early redemption of a policy when the surrender value is less than the value of premiums paid.

ii) Transactions in which policies are cancelled shortly after premiums have been paid, resulting in the return of premiums, unless the direct life insurer is furnished with a plausible reason for the cancellation, especially where policy premiums have been paid in cash.

iii) Transactions that are incompatible with the normal activities of the customer, for example, taking out a policy loan soon after the inception of the policy. In addition, if an existing customer whose current contracts are small or involve only small, regular premium payments makes a sudden request for a purchase of a significantly large single premium policy, this should also prompt further investigations by the direct life insurer.

iv) Transactions that are not commensurate with the customer's apparent financial means, for example, where customers without reasonable financial standing purchase large single premium policies for a large sum assured.

v) Transactions where the nature, size or frequency appears unusual, for example, a customer requests a transaction involving multiple policies of a similar nature, which aggregate to large amounts.

vi) A customer's request for the early termination of a single premium policy especially when cash had been tendered should also prompt further investigations by the direct life insurer.

vii) Transactions in which funds are received by way of a third-party cheque, especially where there is no apparent connection between the third party and the customer.

viii) Abnormal settlement instructions, including payment to apparently unconnected parties.

14.2 Transactions Involving Large Sums

i) Payment of premiums through large or unusual amounts of cash. A direct life insurer should be vigilant in verifying information and the nature of transactions of any customer if any large single payment is made in cash.

ii) Frequent taking out of policy loans that are repaid with large amounts of cash.

iii) Transactions in which funds are received from or paid to a customer's account in a financial haven, or in foreign currency especially when such transactions are not consistent with the customer's transaction history.

iv) Overpayment of premium with a request to refund the excess to a third party or an account held in a different country or jurisdiction.

14.3 Transactions Involving Transfers Abroad

i) Large and regular premium payments that cannot be clearly identified as bona fide transactions, from countries or jurisdictions associated with (a) the production, processing or marketing of narcotics or other illegal drugs or (b) other criminal conduct.

ii) Substantial increase in cash premium payments from foreign countries or jurisdictions by a customer without apparent cause, especially when such transactions are not consistent with the customer's transaction history.

14.4 Transactions Involving Unidentified Parties

i) Paying premiums in large third-party cheques on behalf of the customer.

ii) Assignment of a policy to unidentified third parties and for which no plausible reasons can be ascertained.

iii) A number of policies taken out by the same insured for low premiums, each purchased with cash and then cancelled with return of premiums to a third party.

14.5 Free-Look Provisions/Grace Periods and Other Matters

i) Frequent changes to the address or where the customer is a non-natural person, frequent changes to authorised signatories.

ii) A policyholder may exercise cancellation rights or cooling off rights on life insurance products where the sum invested must be repaid. This could offer a readily available route for laundering money, and insurers should therefore be alert to any abnormal exercise of cancellation or cooling off rights by any policyholder. In the event that abnormal exercise of these rights becomes apparent, the matter should be treated as suspicious and reported to the FIU.

iii) Agents who have consistently high activity levels of single premium business far in excess of any average company expectation.

iv) The use of an address that is not the customer's permanent address, for example, utilisation of the agent's office or home address for the dispatch of customer documentation.

14.6 Tax Crimes Related Transactions

i) Negative tax-related reports from the media or other credible information sources.

ii) Unconvincing or unclear purpose or motivation for purchasing life policies.

iii) Originating sources of multiple or significant premiums are not consistent with the declared purpose of the policy.

iv) Source of premiums are from another country or jurisdiction, often a tax haven with poor track record on CDD or record keeping requirements.

v) Policies managed by external asset managers who may not be adequately regulated and supervised.

14.7 Other Types of Transactions

i) The customer fails to reasonably justify the purpose of a transaction when queried by the direct life insurer.

ii) Transactions with countries or entities that are reported to be associated with terrorism activities or with persons that have been designated as terrorists.

iii) When a young person purchases a life policy with cash value and surrenders it within a short period, which could be an indication of terrorism financing.

iv) When a person receives funds from a religious or charitable organisation and utilises the funds for purchasing a life policy with cash value and surrenders it within a relatively short period.

v) The customer uses intermediaries which are not subject to adequate AML/CFT laws.

vi) Transactions that are suspected to be in violation of another country's or jurisdiction's foreign exchange laws and regulations.

15 GOVERNANCE FRAMEWORK OF AML/CFT WITHIN AN INSURANCE COMPANY

The presence of an effective corporate governance system, within the company, is key to building an environment of trust, transparency and accountability.

15.1 Board's Responsibility for AML/CFT Compliance

The Boards of pension funds, administrators and insurers are responsible for managing ML and TF risks. The Boards must therefore take ownership and responsibility for, ML/TF risk assessments and ensure that they remain up to date and relevant.

15.2 Money Laundering Reporting Officer (MLRO)

The insurer shall appoint a MLRO to whom every staff member reports to on AML/CFT cases and issues.

The MLRO shall:

a) be sufficiently senior in the organisation or have enough experience and authority; and

b) have a right of direct access to the board of directors

c) have enough time and resources to effectively discharge his/her functions.

The MLRO appointed must:

a) be a natural person;

b) be an approved officer; and

c) have the appropriate knowledge, skill and experience in AML/CFT issues.

The institution must ensure that the MLRO:

a) is the main point of contact with the FIU in the handling of ML/TF issues;

b) AML/CFT issues are part of his/her job description

c) has unrestricted access to the CDD information of the financial institution's customers, including the beneficial owners thereof;

d) has sufficient resources to perform his or her duties;

e) is available on a day-to-day basis;

f) reports directly to, and has regular contact with, the Board or equivalent of the financial institution; and

g) is fully aware of both his or her personal obligations and those of the financial institution

15.3 Duties of the Money Laundering Reporting Officer

The MLRO has several important roles as illustrated below:

Figure 7: DUTIES OF A MLRO

16. AML/CFT OBLIGATIONS

Sections 13 to 34 of the Money Laundering and Proceeds of Crime (MLPC) Act [Chapter 9:24) outline AML/CFT obligations of financial institutions, which include insurance companies.

16.1 AMLC/FT Policy

Every entity must have an AML/CFT policy aligned to the requirements of the MLPC Act. Such policies must include:

i Customer Acceptance Policy,
ii Customer Identification Procedures,
iii Monitoring of Transactions, and
iv ML/TF Risk Management Framework.

Just like any other policy, the AML/CFT policy should be updated and reviewed often to capture any new AML/CFT developments. It must be approved and signed by the board of directors.

16.2 Know Your Customer and Customer Due Diligence

Insurance companies must ensure they have appropriate customer identification and due diligence procedures in place. The following measures must be implemented whenever appropriate:

Simplified/standard due diligence – This is applicable where ML/TF risk is considered low. Some of the customer information to request include proof of residence, national Identity document, source of funds, proof of residence, banking details and contact details,

Enhanced due diligence - This is normally applicable to higher risk customers such as politically exposed persons (PEPs), clients from high risk jurisdictions, non-resident clients, high net worth clients and non-profit organisations. In addition to standard information requests, include information such as nature of occupation, the purpose for buying the insurance policy, and identities of ultimate beneficial owners. Other additional parallel information searches must be done in addition to seeking further guidance or approval from senior management.

Client risk scoring- Before client on-boarding, an analysis of the level of ML/TF risk posed by a client should be done. Information such as physical residence address, geographic location, nature of the client, occupation and the source of funds for investing should be done using proposal forms. If client is high risk or suspicious, the Anti-Money Laundering Reporting Officers should notify the FIU.

United Nations Security Council Sanctions screening- Players must screen their clients' data base against the United Nations Security Council (UNSC) sanctions list before transacting business with such clients. Other online supporting systems which could be used include: World-Check, FICO Tonbeller-Siron AML, and LexisNexis risk solutions.

Information on beneficial ownership- Sector players must identify the beneficial owners for both the direct customer and any other beneficiaries including natural persons behind any trusts, nominees or investment companies.

Reliance on third party due diligence- Third party screening can be used although the insurance company continues to be responsible for such due diligence.

16.3 Ongoing Obligations

In terms of the Money Laundering and Proceeds of Crime Act, financial institution such as Insurance Companies are required to comply with certain obligations that financial institutions should comply with on an ongoing basis. The following are key:

Record Keeping: Players must keep records of customer identity and transaction records for a minimum of five years. Such records should be available on demand for inspection by the FIU, IPEC or any other competent supervisory authorities.

Ongoing Monitoring: With a special focus on high risk clients, insurers must monitor transactions records and flag unusual transactions as guided in this manual.

Re-verification of KYC Information: Continuous verification should be done to update current information and records on customers and beneficial owners. Such re-verification should be conducted annually for high risk clients and after every three years for low risk clients.

Employees Training: AML/CFT Training should be conducted at least annually on all staff to update them on AML/CFT developments and to continuously refresh their knowledge of AML/CFT. More frequent training should be done for front office employees. Insurers must maintain a training register and training documents.

16.4 Reporting Obligations

Suspicious Transaction Reporting: Anti-Money Laundering Reporting Officers shall report suspicious transactions to the FIU within 72 hours of forming suspicion in addition to monthly reporting requirements.

Large cash transaction reports: Large cash transaction reports, including nil returns, should be submitted to the FIU. Currently, all transactions that exceed US$5 000 and made in cash should be reported.

UNSCR Reporting. United Nations Security Council Resolution (UNSCR) reporting assists in the fight against terrorism and terrorism financing. Policyholders must be screened against the UN sanctions lists before on-boarding. Upon receipt of a new Directive, players should confirm receipt and verify whether they transact business with such listed persons and notify the FIU after freezing the insurance policy. Players must maintain a Sanctions Monitoring Register and must continuously verify the latest list on the UN website on the following website:

www.un.org/sc/committees/1267/aq_sanctions_list
www.un.org/sc/committees/1267/aq_sanctions_list
www.un.org/sc/committees/1988/list

17. RISK BASED SUPERVISION (RBS)

Best practice recommends that financial institutions adopt RBS.

17.1 What Is A Risk-Based Approach?

A risk-based approach to AML/CFT is a process by which authorities identify, assess and understand their ML/TF risks and taking appropriate measures to effectively manage those risks. The objective of the risk-based approach is to deploy resources where the risks are higher.

17.2 Money Laundering and Terrorist Financing Risks

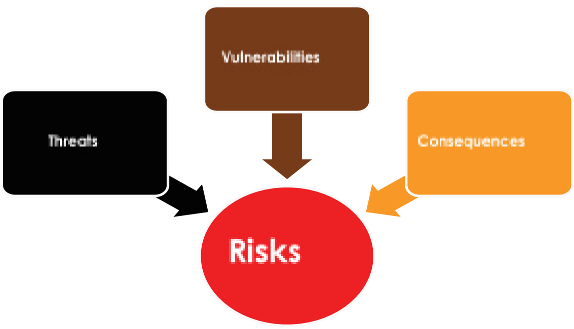
The risk of Money laundering and terrorist financing is made up of three factors as follows:

. **Threats:** Person or group of people, an object or an activity with the potential to cause harm to the financial system.

. **Vulnerabilities:** Weaknesses in AML/CFT system of an institution, sector or a country that make it

. **Consequences:** The harm that ML/TF may cause to a country, sector or financial institution.

FIGURE 10: COMPONENTS OF ML/TF RISK



17.3 General Guidelines in Risk Based Supervision

Insurance institution should:

(a) understand its ML and TF risks; and
(b) have in place effective policies, procedures and controls to:
(i) identify,
(ii) assess,
(iii) understand
(iv) mitigate,
(v) manage, and
(vi) review and monitor, those risks in a way that is consistent with the requirements of Money Laundering and Proceeds of Crimes Act.

17.4 Specific Steps in Risk Based Supervision

A risk-based approach prescribes the following procedural steps to manage the ML and TF risks faced by the institution:

(a) identifying the specific threats posed to the firm by ML and TF and those areas of the firm's business with the greatest vulnerability;

(b) assessing the likelihood of those threats occurring and the potential impact on the financial institution;

(c) mitigating the likelihood of occurrence of identified threats and the potential for damage to be caused, primarily through the application of appropriate and effective policies, procedures and controls;

(d) managing the residual risks arising from the threats and vulnerabilities that the financial institution has been unable to mitigate; and

(e) reviewing and monitoring those risks to identify whether there have been any changes in the threats posed to the insurance company which necessitate changes to its policies, procedures and controls.

18. CONCLUSION

AML/CFT is an integral part of compliance for all players as it impacts negatively at institutional level, sector-level and country-level. It requires concerted effort by essentially all economic players in Zimbabwe, including insurers, their regulators and executive of the country. Players must therefore up-skill and ensure ongoing compliance on AML/CFT issues.