ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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Preventing Financial Crime

Analysis of firms' data

(2018, 2019, 2020)

LIFE INSURERS

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Contents

Glossary

"Life Insurer"	means an insurer authorised under the Insurance Act 2008 to carry on long-term business
"AML/CFT"	means Anti-Money Laundering and Countering the Financing of Terrorism

1. Introduction and Key Findings for Life Insurers

1.1 The Isle of Man Financial Services Authority's ("the Authority") regulatory objectives[1] include "the reduction of financial crime". The Authority receives, and analyses, annual AML/CFT data from regulated and registered entities to help it monitor AML/CFT threats and trends in, and across sectors. Reports are prepared to help show a view across sectors[2], excluding gambling, that are subject to the Island's AML/CFT framework. The Authority also uses this information to help with its risk assessment of sectors and individual firms.

1.2 This report is focused on those firms whose primary business is that of being a **Life Insurer**. Permit holders and insurance managers are excluded from this report. Reports for other sectors are also produced.

1.3 Generally, Life Insurers in the Isle of Man provide a range of products and services to local and international customers, with a much smaller domestic customer base. Products are predominantly savings and investments through unit-linked insurance offerings as well as some traditional protection business.

1.4 This report provides an analysis of three years of data and covers areas such as the geographical profile of customers and beneficial owners, Life Insurer's assessment of customer risk, reporting and monitoring of financial crime and sanctions, and the use of introducers and third parties.

1.5 **Table 1** below provides information on the population of Life Insurers who were required to submit the annual AML/CFT data return for December 2020, December 2019 and December 2018.

Table 1: Population of Life Insurers for the purpose of this Report

	December 2020	December 2019	December 2018
Number of Life Companies	13	13	13

1.6 The analysis confirms that the client base is diverse, with a wide geographical spread of customers by residency, beneficial ownership and the location of the introducers. There is therefore a significant cross border aspect to the Island's Life sector. The data

[1] As set out in the Financial Services Act 2008 ("FSA08")

[2] The data does not include information from the small number of firms who are registered only for bureau de change, agency payment services, or cheque cashing. These firms currently submit different AML/CFT statistical data which is analysed separately.

also confirms that a substantial portion of business is conducted on a non-face to face basis through introducers, which can increase inherent risk. Life Insurers also reported that they do undertake business with foreign PEPs, trusts and corporate entities.

1.6 The above profile, coupled with the vulnerabilities of the highly personalised nature of many products offered by Life Insurers results in a higher inherent risk of Life Insurers being exposed to a range of money laundering, terrorist financing and sanctions threats. The importance of Life Insurers having strong and effective monitoring and control frameworks is therefore paramount.

2. Background to the AML/CFT data return

2.1 The Isle of Man Financial Services Authority's ("the Authority") regulatory objectives[3] include "*the reduction of financial crime*". In its **2018-2021 Strategic Plan** the Authority sets out its *long term goals* and *strategic objectives* which include:-

Long term goal	Strategic objective
Continue to develop our identity and culture and to operate as a forward looking integrated regulator	*Enhance the framework to protect consumers and deter financial crime*
Fully implement a risk-based supervisory approach for every entity within our remit, including vulnerability to financial crime	*Encourage innovation and continuous improvement in all that we do*
Be an International Financial Centre which is recognised as effectively deterring financial crime	

2.2 During 2016-2017 the Authority consulted on, and subsequently introduced, a pilot annual AML/CFT data return, designed to obtain information from regulated and registered entities to help the Authority monitor AML/CFT threats and trends in, and across, sectors. The table below shows the expected scope of returns to 2020 and thereafter, which was set out by the Authority at the time:

[3] as set out in the Insurance Act 2008 ("IA08")

Responders	Annual reporting period	Basis for the information	Submission deadline
All regulated entities[4] Sample of registered entities[5]	31 December 2016	Best endeavours[6]	29 November 2017
All regulated and registered entities (firms)	31 December 2017	Part actual data, part best endeavours	31 December 2018
All firms	31 December 2018	Part actual data, part best endeavours	31 December 2019
All firms	31 December 2019	Part actual data, part best endeavours	30 September 2020, contingency to 31 December 2020
All firms	31 December 2020 and thereafter	Actual data (unless by exception)	30 June 2021 and 30 June thereafter

It is recognised by the Authority that some of the information requested in the Return may not be in an easily extractable format from the systems of the firm. If this is the case, by exception the Authority will accept a firm providing the information on a "best endeavours" basis using its detailed understanding and knowledge of its customers and new business processing. Where this is the case, the Authority requests for supporting commentary to clarify the reasons for the use of the best endeavours basis, including whether it only applies to part of a question, or whether it only applies to a subset of the figures.

2.3 Based on the original pilot exercise (December 2016 data), high level results were presented to industry groups during 2018. The Authority has now also analysed the data collected and will use this information to help with its risk assessment of sectors, and individual firms.

3. Objectives

3.1 The gathering and analysis of data from all firms about AML/CFT helps the Authority to achieve the regulatory objective of "*the reduction of financial crime*".

3.2 The data informs the Authority's understanding of the ***inherent risks*** that firms, and sectors, may pose, and supports the Authority's AML/CFT supervisory work utilising a risk based approach. Some information provided also relates to a firm's ***control environment***. The information that must be reported is dependent on the type of activity a firm undertakes, for example a Life Insurer must report more information when compared to a financial advisory firm. Key areas of focus include:-

[4] Regulated under the IA08, the Financial Services Act 2008 and the Retirement Benefits Schemes Act 2000
[5] Registered under the Designated Businesses (Registration and Oversight) Act 2015.
[6] Refer Annex 1: Data Quality

- The jurisdictional risk profile of the customer base and ultimate beneficial owners;
- The extent of non-face to face and introduced business undertaken by firms;
- Identification and reporting of suspicious activity for both money laundering and terrorist financing;
- Monitoring and screening processes adopted, including for sanctions;
- How firms categorise customer risk;
- The level of politically exposed persons in the system, and how these are identified;
- The compliance and internal audit mechanisms;
- Outsourcing of AML/CFT processes;
- The payment methods accepted by firms in relation to incoming and outgoing transfers; and
- The types of client or product / services provided.

3.3 The data underpins the Island's understanding of the wider financial crime environment and forms a key part of the National Risk Assessment process.

4. Customer risk profile – Life

A. Geographical profile - residency

4.1 Firms are required to report their customer relationships according to the residency of the customer. This information enables the Authority to consider jurisdictional risk, and the extent to which customers are linked to higher-risk jurisdictions, when assessing sectors and firms.

4.2 The total number of policyholders with inforce policies reported by Life Insurers as at 31 December 2020 was **753,723** (***2019: 744,296, 2018: 767,249***).

At the end of 2020, Life Insurers reported that **87.8%** of policyholders were natural persons (***2019: 89.9%, 2018: 91.3%***). As a percentage of the total customer relationships **45.3%** are natural persons resident in Asia (including Middle East) **(2019: 47%, 2018 47.1%)** and **18.9%** are resident in the UK (***2019: 19%, 2018: 19.1%***). Some of these customers may be customers of more than one firm that reports data.

12.2% of policyholders were reported to be non-natural persons (***2019: 10.1%, 2018: 8.7%***). The most common residency for the non-natural persons (of the legal arrangement) was the UK at **8%** (as a percentage of total customer relationships) (***2019: 7.1%, 2018: 5.6%***), **1.2%** are resident in the EU (***2019: 0.7%, 2018: 0.8%***) and **0.8%** are resident in Other Europe (***2019: 0.5%, 2018: 0.5%***).

The data reported by Life Insurers on the residency of non-natural customers (legal arrangements) is not unexpected with the majority being from countries which have mature company and trust formation sectors.

Tables 2a and 2b below provide a more detailed breakdown.

Table 2a Total percentage of relationships based on residency of the customer

Region of Residence	Total customer relationships (% of total)			Region of Residence	Customer relationships: natural persons (% of total customers)			Customer relationship: Non-natural persons (% of total customers)		
	2020	2019	2018		2020	2019	2018	2020	2019	2018
Asia (inc Middle East)	46.0%	47.6%	47.8%	Asia (inc Middle East)	45.3%	47.0%	47.1%	0.7%	0.7%	0.7%
UK	26.9%	26.2%	24.7%	UK	18.9%	19.0%	19.1%	8.0%	7.1%	5.7%
Americas	16.9%	17.0%	17.8%	Americas	16.6%	16.7%	17.5%	0.3%	0.3%	0.3%
Africa	2.2%	2.4%	2.4%	Africa	2.1%	2.2%	2.3%	0.2%	0.2%	0.2%
EU (exc EEA & Switzerland)	4.3%	3.9%	4.2%	EU (exc EEA & Switzerland)	3.1%	3.1%	3.3%	1.2%	0.7%	0.8%
Other Europe	1.7%	1.5%	1.5%	Other Europe	0.9%	1.0%	1.0%	0.8%	0.5%	0.5%
Oceania	0.8%	0.7%	0.8%	Oceania	0.8%	0.7%	0.8%	0.0%	0.0%	0.0%
Channel Islands	0.8%	0.5%	0.5%	Channel Islands	0.1%	0.1%	0.2%	0.6%	0.4%	0.4%
Isle of Man	0.5%	0.3%	0.3%	Isle of Man	0.1%	0.1%	0.1%	0.4%	0.2%	0.2%
TOTAL	**100%**	**100%**	**100%**	**TOTAL**	**87.8%**	**89.90%**	**91.2%**	**12.2%**	**10.1%**	**8.8%**

Table 2b: Top 10 countries by residency of the customer

Country of residence	Customer relationship: natural persons (% of total customer relationships)			Country of residence	Customer relationship: Non- natural persons (% of total customer relationships)		
	2020	2019	2018		2020	2019	2018
UK	18.9%	19.0%	19.1%	UK	8.0%	7.2%	5.6%
United Arab Emirates	17.4%	17.9%	17.3%	Malta	1.0%	0.5%	0.5%
Hong Kong	10.6%	11.5%	12.2%	Gibraltar	0.7%	0.5%	0.5%
Argentina	10.0%	10.0%	10.5%	Guernsey	0.6%	0.3%	0.3%
Japan	6.6%	6.3%	5.9%	Isle of Man	0.4%	0.2%	0.2%
Singapore	2.0%	2.1%	2.3%	United Arab Emirates	0.2%	0.2%	0.2%
China	1.6%	1.8%	1.8%	Japan	0.2%	0.2%	0.2%
Taiwan (Province of China)	1.5%	1.6%	1.8%	Argentina	0.2%	0.2%	0.2%
Brazil	1.2%	1.4%	1.5%	Hong Kong	0.2%	0.2%	0.2%
Chile	0.9%	0.9%	1.0%	Sweden	0.1%	0.2%	0.2%

4.3 In summary, the jurisdictional profile of the customer base for Life Insurers is wide in its scope and therefore there is a resultant increased inherent risk of being exposed to a range of money laundering / terrorist finance threats.

B. Geographical profile – residency of ultimate beneficial owners

4.4 Life insurance companies also provide services to non-natural customers ("entities") and must understand who the beneficial owners of such entities are.

Of the non-natural customer book, **73.5%** of beneficial owners are resident in the UK ***(2019: 69.4%, 2018: 74.3%)***, followed by Asia at **5.9%** (***2019: 7.5%, 2018: 10.2%)***.

Tables 3a and 3b below provide a more detailed breakdown.

Table 3a: Residency of the beneficial owners of non-natural customers and of the owning entities

	Residency at December 2020		Residency at December 2019		Residency at December 2018	
	Beneficial Owners	Entities	Beneficial Owners	Entities	Beneficial Owners	Entities
UK	73.5%	65.7%	69.4%	71.1%	74.3%	64.0%
EU (exc EEA and Switzerland)	6.4%	9.9%	8.8%	7.4%	6.0%	9.6%
Asia (inc Middle East)	5.9%	5.4%	7.5%	6.5%	10.2%	8.0%
Other Europe	5.0%	6.4%	5.4%	4.9%	2.8%	5.8%
Channel Islands	3.4%	5.2%	3.1%	3.6%	1.3%	4.2%
Americas	2.2%	2.5%	1.5%	3.1%	1.8%	3.8%
Africa	1.8%	1.3%	2.3%	1.6%	2.2%	1.9%
Isle of Man	1.5%	3.4%	1.5%	1.6%	0.7%	2.4%
Oceania	0.3%	0.2%	0.5%	0.2%	0.7%	0.3%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note that these two measurements are not explicitly linked; the residency of the entities does not necessarily correspond or correlate with the residency of the beneficial owners.

Table 3b: Top 10 countries by residency of the beneficial owner (of entities) 2020

	Top ten countries of residence of the beneficial owner based on 2020 data (% of total number of beneficial owners for each year)		
	2020	**2019**	**2018**
UK	73.5% (1)	69.4% (1)	74.3% (1)
Malta	5.2% (2)	5.5% (2)	1.4% (5)
Gibraltar	4.7% (3)	4.6% (3)	1.7% (3)
Guernsey	3.2% (4)	2.8% (4)	1.1% (7)
Japan	2% (5)	1.4% (7)	1.5% (4)
United Arab Emirates	1.6% (6)	2.5% (5)	3.1% (2)
Isle of Man	1.5% (7)	1.5% (6)	0% (-)
Hong Kong	1.1% (8)	1.1% (8)	1.3% (6)
Argentina	0.9% (9)	0% (-)	0% (-)
Kenya	0.5% (10)	0% (-)	0% (-)

The jurisdictional profile of the beneficial owners of non-natural customers for Life Insurers is relatively wide in its scope, albeit with a particular concentration of UBOs being resident in the UK.

4.5 Similar to the residency profile for customers who are natural persons, the range of residency of UBOs is relatively wide in scope and therefore there is a resultant increased inherent risk of Life Insurers being exposed to range of money laundering / terrorist finance threats.

4.6 Life Insurers need to be cognisant of the potential increased inherent risk exposure of money laundering / terrorist finance threats, through more complex structures especially where there are connections to jurisdictions with weaker AML/CFT frameworks.

C. Politically exposed persons and other high risk customers

4.7 **Tables 4a, 4b and 4c** show customer relationships, as assessed by Life Insurers, deemed to pose a higher risk of money laundering, and the level of politically exposed persons ("PEPs") among the customer base. A PEP is a natural person who is or has been entrusted with prominent public functions[7]. PEPs include people with a high

[7] Anti-Money Laundering and Countering the Financing of Terrorism Code 2019 ("the Code"), 3 Interpretation (1)

political profile or prominent public jobs who may misuse their position for private gain. Family members and close associates of PEPs may also pose a higher risk as the PEPs may use them to hide any misappropriated funds or assets gained through abuse of power, bribery or corruption.

Firms are required to identify PEPs at the start of a business relationship and, through effective monitoring, if any persons subsequently become PEPs. Firms are required by law to undertake enhanced checks and monitoring of all customers who are, or are associated with, foreign PEPs and any domestic PEPs who the Firm assesses as posing a higher risk.

4.8 At the end of 2020 Life companies reported **6,278 customers who are, or are associated with, a PEP** (***2019: 9,273, 2018: 10,341***), including **6,272 related to foreign PEPs** (***2019: 9,269, 2018: 10,335***).

Table 4a shows there has been a significant decrease in the number of foreign PEPs reported from 2018 to 2020. The primary reason for the reduction in the number reported foreign PEPs is attributable to the removal of duplicate reporting by one Life Insurer from its 2020 reported figures that were present in its 2018 and 2019 data. This duplication was identified as part of a reconciliation process undertaken by the Life Insurer as part of its response to the Authority's Foreign PEP thematic exercise. Other contributors to the reduction confirmed that the significant changes in PEP figures over the 3 year period were a result of their ongoing reviews and reconciliations, where on review customers were identified as not meeting the PEP classification.

Table 4a: PEP relationships

	Number of PEP relationships (and as a % share of all policyholder relationships)		
	As at December 2020	**As at December 2019**	**As at December 2018**
Total number of policyholders reported	753,723	744,296	767,249
Policyholders who are, or are associated with, politically exposed persons (PEPs)	6,278 (0.8%)	9,273 (1.2%)	10,341 (1.3%)
Of which are foreign PEPs	***6,272***	***9,269***	***10,335***
Of which are domestic PEPs	*6*	*4*	*6*

4.9 At the end of 2020, **all** Life Insurers confirmed that they screen for PEPs at the commencement of a business relationship, and screen their customer records on a periodic basis to determine if a customer has become a PEP. For the latter the frequency of screening was generally daily for all customer risk types; noting two companies reported they screen weekly, and a further two companies reported they screen on a monthly basis.

4.10 At the end of 2020 Life Insurers reported they had **5,827** higher risk policyholders (***2019: 8,381 2018: 9,292***); or **25,532** higher risk policies (***2019: 28,877 2018: 42,790***); these figures include customers who are categorised as being higher risk for reasons other than being a PEP. Where firms identify that customers pose a higher risk, either at the outset of a business relationship, or through an event that occurs during the business relationship, they are legally required to conduct Enhanced Customer Due Diligence ('ECDD').

The return allows the Life Insurer to provide this data on either a policy or policyholder. For 2020 more than half of the firms reported this data on a policy basis, with 5 firms reporting on a policyholder basis. It is worth noting that some Life Insurers changed their reporting basis between policies and policyholders over the 3 reporting periods. This is likely to distort the year on year comparison, noting that these figures also include the PEP duplication noted in section 4.8. It is likely that the risk profile of policyholders has not fundamentally changed across the sector from 2018 to 2020.

Note also that the same individual customers may appear more than once in these figures because individuals and businesses may have multiple financial relationships.

Table 4b: High-risk customer relationships

	Total number of high risk customer relationships (and as a % share of total customer relationships)		
	December 2020	December 2019	December 2018
Total number of policyholders reported	374,719	362,270	362,751
Total high risk policyholders (*includes any PEPs assessed as higher risk)*	5,827 (1.56%)	8,381 (2.31%)	9,292 (2.56%)
Total number of policies reported	371,066	384,670	405,564
Total high risk policies *(includes any PEPs assessed as higher risk)*	25,532 (6.88%)	28,877 (7.51%)	42,790 (10.55%)

4.11 The number of high risk customer relationships reported on a policyholder basis is a relatively low percentage of the total number of policyholders reported and is not out of line with the data provided for PEP relationships.

The number of high risk customer relationships reported on a policy basis is a higher percentage than those reported on a policyholder basis but this is expected as a higher risk customer may hold multiple policies with a life insurer.

Table 4c: New high-risk customer relationships

	Total number of new high risk customer relationships (and as a % share of new customer relationships)		
	December 2020	December 2019	December 2018
Total number of new customers on-boarded in the reporting period	36,515	43,722	45,774
New high risk customers on-boarded in the reporting period (*includes any PEPs assessed as higher risk*)	861 (2.4%)	789 (1.8%)	4,535 (9.91%)

4.12 It is noted that there has been a significant decrease in the number of new high risk customer relationships from 2018 to 2019. For 2020 the number of new high risk customers slightly increased again, however the total number of new customers on-boarded has dropped significantly to the previous 2 years, which is expected following the start of the Covid-19 pandemic in the first quarter of 2020.

4.13 Overall, PEPs and other high risk customers represent a **relatively small proportion** of the total customer base of Life Companies.

4.14 The majority of Life Insurers reported that they review the customer risk assessment and CDD information for all high risk (including higher risk PEPs) relationships at least annually or at a trigger event.

4.15 Where a customer has been identified as posing a higher risk for money laundering or terrorist financing during the on-boarding and customer risk assessment process, then a firm must conduct enhanced customer due diligence.[8] Life Insurers were requested to report if they undertake any ECDD in respect of the new business customer relationships established within the reporting periods. All Life Companies reported that ECDD procedures were undertaken where there were new higher risk customer relationships.

4.16 For those firms undertaking ECDD procedures, they reported using verification of source of funds, establishment of source of wealth, seeking the purpose/nature of the

[8] Anti-Money Laundering and Countering the Financing of Terrorism Code 2019 ("the Code"), 15(3), 9(5)

relationship, carrying out additional searches and conducting enhanced monitoring as the most common types of ECDD used.

4.17 *Table 4d* below shows the number of new customer relationships where ECDD was undertaken and the number of higher risk new customer relationships for each year reported by the Life Companies.

Table 4d – Number of ECDD checks on new customer relationships and the number of higher risk new customer relationships

	December 2020	December 2019	December 2018
Number of ECDD checks undertaken for new customer relationships	865	656	4,035
Number of high risk new customers on-boarded in the reporting period (*includes any PEPs assessed as higher risk*)	861	789	4,535

5 Tackling Financial Crime – Life

A. Resourcing the fight against financial crime

5.1 To effectively monitor and address the risk that persons abuse the financial system for money laundering and terrorist financing requires a significant amount of firms' time and resources. As at 31 December 2020 Life Insurers reported that they collectively employ a total of **1,930 individual members of staff** (***2019: 1,996; 2018: 2,065***) in the Isle of Man and other jurisdictions either directly or through a service contract. **67%** of the total employees were reported as Isle of Man staff, with this proportion remaining stable over the three years.

5.2 **54 individuals (4%)** were reported as being in compliance and prevention of financial crime roles (***2019: 68 / 5%, 2018: 71 / 5%***). It should be noted that compliance roles are not solely focused on financial crime. Life Companies also reported **1.6 full time equivalent compliance / financial crime vacancies** at the end of 2020 (***2019: 1, 2018: 1***).

5.3 Relevant staff require ongoing training to ensure they have the effective knowledge to help detect and prevent their firm from being misused by criminals. In the year ended 31 December 2020, Life companies reported that **2,409 general refresher training places were filled** (***2019: 2,504, 2018: 2,277***). This number is greater than the total reported number of employees suggesting coverage across all staff.

In addition, Life companies reported that **72 staff (3.7%)** received additional specialist training (***2019: 73, 2018: 56***).

B. Outsourcing of processes to group entities or third parties

5.4 Information is obtained on the outsourcing of certain activities or functions to group entities or third parties. Where outsourcing occurs firms should have robust monitoring and control processes in place, as responsibility remains with the firm. Information is requested in respect of the following:-

- Customer on-boarding (including for risk assessments, collection of due diligence,screening, and business acceptance);
- Ongoing monitoring;
- MLRO and Compliance activity (for AML/CFT); and
- Staff screening and take-on.

5.5 It was evident from the reporting by Life Insurers that they outsource a range of activity relating to the above, including within their wider groups and, in some cases to third parties. The most extensive use of outsourcing was for the screening of staff at take-on, and the least used was, as expected, for MLRO and Compliance activity.

Table 5 below provides more information, the data is for the **13** Life Companies in respect of 2020 only. The data reported has remained stable over the 3 year period from 2018, with the only significant change being an increase in outsourcing to third parties for staff-screening and take-on.

Note that in some cases firms have reported that some of the client on-boarding and ongoing monitoring processes are undertaken in-house, with some parts of the processes being outsourced to Group and/or a third party.

Table 5: Outsourcing of AML/CFT activity

Description	Undertaken by the Life company	Outsourced to Group	Outsourced to Third Parties
Client on-boarding[9]			
Customer risk assessments	Yes - 12	Yes - 1	Yes - 1
Collection of customer due diligence	Yes - 12	Yes - 2	Yes - 1
Customer screening	Yes - 12	Yes - 1	Yes - 1
Customer acceptance[10]	Yes - 12	Yes - 1	Yes - 1
Ongoing monitoring	Yes - 12	Yes - 2	Yes - 1
MLRO & Compliance activity[11]			
MLRO / DMLRO activity	Yes -12	Yes - 1	No
Compliance activity	Yes -12	Yes - 1	No
Staff screening and take-on[12]	Yes - 7	Yes - 6	Yes - 5

C. Monitoring for, and reporting of, financial crime

5.6 The law requires employees of firms to report knowledge or suspicion of money laundering within their firm, to their MLRO. In the year ended 31 December 2020, **231** cases of concern, suspicion or knowledge of money laundering were either identified by staff, generated through automated processes, or identified from other intelligence sources, and reported to the firms' MLROs (***2019: 299, 2018: 356***). There were no terrorism related internal reports made to the MLRO in 2020 (***2019: 0, 2018: 1***).

5.7 MLROs must consider these reports, and decide whether a formal submission to the **Isle of Man Financial Intelligence Unit**[13] ("FIU") is justified, and must be registered with the FIU's "Themis" system to be able to make reports. At the end of 2018, 2019 and 2020, all Life Insurers reported they were registered on "Themis".

5.8 In 2020, after investigation by MLROs, **88** cases of knowledge or suspicion of money laundering were reported to the FIU (***2019: 101, 2018: 62***). There was **1** external

[9] Outsourcing may be for only customer segments or part of a process
[10] Outsourcing of business acceptance was for very specific purposes, and subject to the consent of the Authority.
[11] Any outsourcing was intra-group within the Isle of Man.
[12] All 5 Life companies which did not undertake this "in-house" reported that they outsourced to their groups and/or a third party

[13] See https://www.fiu.im/

report made to the FIU which was terrorism related in 2020 (***2019: 0, 2018: 1***). Further, Life Insurers reported **48** cases to the FIU regarding general intelligence (***2019: 40, 2018: 49***).

5.9 In 2020 Life Insurers also handled **22** requests from law enforcement and other competent authorities (***2019: 46, 2018: 28***). Of these, **9** explicitly related to money laundering (***2019: 19, 2018: 12***) and there were no requests in relation to terrorist financing (***2019: 0, 2018: 0***).

5.10 A summary of this data is presented in **Table 6.** Engagement between the FIU, other law enforcement agencies and financial firms is a crucial component that supports investigations and prosecutions, not only in the Isle of Man but as part of international cooperation. It is evident that Life Insurers form a significant part of this infrastructure.

Table 6: Liaising with the authorities

Description	Year ended 31 Dec-20	Year ended 31 Dec-19	Year ended 31 Dec-18
Number of internal Money Laundering disclosures to the MLRO	231	299	356
Number of external Money Laundering disclosures to the FIU	88	101	62
Number of internal Terrorist Financing disclosures to the MLRO	0	0	1
Number of external Terrorist Financing disclosures to the FIU	1	0	1
Section 24 disclosures to the FIU	48	40	49
Enquiries received from law enforcement authorities	**10**	**21**	**25**
Of which were Money Laundering related	*9*	*19*	*12*
Of which were Terrorism related	*0*	*0*	*0*
Other enquiries or reason not known	*1*	*2*	*13*
Enquiries received from other competent authorities	**12**	**25**	**3**
Of which were Money Laundering related	*0*	*0*	*0*
Of which were Terrorism related	*0*	*0*	*0*
Other enquiries or reason not known	*12*	*25*	*3*

D. Refusing and blocking services because of financial crime risk

5.11 Concerns relating to financial crime may lead to firms turning away a prospective customer. In the year ended 31 December 2020 Life Insurers reported they **declined to on-board 16** new applications because of financial crime, terrorism or sanctions related concerns (***2019: 20, 2018: 3***). In some cases, Life Insurers would not always have knowledge or suspicion of financial crime but applicants may have posed an unacceptable risk.

The total number of **declined cases** equated to **less than 0.1%** of all new customer relationships established in each of 2020, 2019 and 2018.

Table 7 provides a further breakdown.

5.12 Firms are required to monitor ongoing business relationships and may cease to provide services because of their own financial crime risk appetite, or may terminate relationships under certain circumstances, including liaising with the FIU if a matter is subject to "consent"[14]. During the year ended 31 December 2020 Life Insurers terminated **1** existing relationship with principals because of financial crime, terrorism or sanctions related concerns (***2019: 2, 2018: none***).

5.13 In addition to terminating relationships, firms may be requested by law enforcement agencies to block or freeze policies, or may themselves put additional controls around policies if information is required from a customer. As at the end of 2020 there were **115 accounts blocked or frozen** for money laundering or terrorism (***2019:77; 2018: 37***) and a further **13 accounts blocked or frozen** for reasons other than money laundering, terrorism or sanctions (***2019: 8; 2018: 114***).

[14] Section 154 of the Proceeds of Crime Act provides a reporting mechanism called "an authorised disclosure", which is a means by which a defence against money laundering can be obtained by a firm. Making an authorised disclosure can be used as the vehicle to seek consent to commit a prohibited act (i.e. possessing, acquiring, moving known or suspected criminal property).

Table 7: Disrupting provision of services

Description	Year ended 31 Dec 2020		Year ended 31 Dec 2019		Year ended 31 Dec 2018	
	Number	Asset Value £'000	Number	Asset Value £'000	Number	Asset Value £'000
Number of potential new customer relationships declined for ML/FT or sanctions purposes	16		20		3	
Number of customer relationships terminated for ML/FT or sanction purposes	1		2		0	
Blocked or frozen accounts for ML/FT purposes – subject to consent including restraint orders etc.	115	15,698,921	77	14,081,140	37	15,320,876
Blocked or frozen accounts for any other purpose (e.g. gone away)	13	2,201,883	8	2,122,083	114	18,166,920

Note: Not all Life Insurers were able to accurately report the number and value of "blocked or frozen accounts for any other purpose" and it was provided on a best endeavours basis.

E. The Isle of Man Life system as gatekeeper

5.14 When it comes to the material flow of funds into and out of the Island, the Life Insurance sector plays an important gatekeeper role. Life Insurers reported the extent to which they use (themselves or for their clients) the Island's banking system. In addition to using the Island's banking sector, firms may also hold bank accounts for themselves, or their clients, outside the Island. Firms are also requested to explain the types of payment method they accept (for inward and outward remittance, where relevant) and they extent to which they are utilised.

5.15 In 2020, of the **13 Life companies, 5 firms** confirmed they only maintained bank accounts within the Island's banking sector for their own funds. Of the other **8 firms,** some were part of groups with operations outside the Isle of Man.

5.16 In respect of client funds, of the **13 Life companies, 5 firms** reported that at least some clients' funds are held <u>outside</u> the Isle of Man's banking system (***2019:7; 2018:7***).

5.17 Firms were requested to estimate the percentage of the value of transactions of their own funds that are transacted through banks in the Isle of Man. Of the 6 firms who reported that they transact their own funds through Isle of Man banks, the median proportion of transaction value is 35.3%. Note that the mean has not been used due to the data not allowing for weightings, and to avoid distortion by those firms who wholly use Isle of Man based banks.

5.18 In 2020, the predominant (usual) payment method utilised by Life Insurers were bank transfers for incoming and outgoing payments. Approximately half of the companies also reported occasional use of cheques for incoming and outgoing payments, and debit/credit cards payments as a usual method for payment collection. Some companies reported using in-specie transfers on a usual or occasional basis and a number also reported some exceptional use of bankers' drafts. The majority of firms stated they never used or accepted cash, traveller's cheques, prepaid cards, PayPal or Crypto/virtual currency.

5.19 The above shows that Life Insurers mostly use Isle of Man based banks for their own needs, but a material portion have client entities who have banking arrangements outside the Island. The latter shows it is even more important that Life Insurers have high standards in place to prevent structures being used to facilitate money laundering or terrorist financing, as a key gatekeeper and introducer of business to other sectors.

Life Insurers mainly utilise very standard methods of payment, with <u>**no**</u> cash activity.

6 Managing and reporting of sanctions – Life

6.6 It is important that firms have robust controls in place to ensure they comply with local and international sanctions. In order to help achieve this firms must have appropriate monitoring and screening tools to identify whether any of their customers (existing or prospective) are sanctioned individuals or organisations, and also to make sure funds paid / received are not made to / from sanctioned individuals or organisations.

6.7 At the end of 2020, **all** Life Insurers confirmed that they screen for sanctions at the commencement of a business relationship, and screen their customer records on a periodic basis to determine if a customer has become subject to sanctions. For the latter the frequency of screening was generally daily for all customer risk types; noting that one company reported they screen on a monthly basis.

6.8 There is always potential that firms hold the funds of sanctioned individuals or organisations, mainly because such individuals /organisations will not have been subject to sanctions when they were originally accepted as a customer. In such cases, firms may be required to block or freeze assets for financial sanctions purposes. As at the end of 2020 there was **1 account blocked or frozen for financial sanctions purposes** (***2019:19; 2018:17***), with an aggregate value of **£147,417** (***2019: £988,248; 2018: £960,386***).

6.9 The law requires firms to identify and report any suspected breach of sanctions[15] to the **Financial Intelligence Unit**. In practice, these reports will be made by a firm's MLRO or Deputy MLRO using Themis (with processes in place internally for employees to report to the MLRO / Deputy MLRO). In the year ended 31 December 2020, **4 disclosures** were made for suspected breaches of sanctions (***2019: 1; 2018: none)***.

Table 8 provides a further breakdown.

[15] With reference to the "Sanctions List", which means the list of persons who are currently subject to international sanctions which apply in the Isle of Man: this list is maintained by the Customs and Excise Division of the Treasury of the Isle of Man

Table 8: Managing and reporting sanctions

Description	December 2020		December 2019		December 2018	
	Number	Asset Value £'000	Number	Asset Value £'000	Number	Asset Value £'000
Number of disclosures made for suspected breach of sanctions	4		1		0	
Accounts blocked or frozen in the year for financial sanctions purposes	0	0	2	139,710	4	187,821
Blocked or frozen accounts for financial sanctions purposes released in the year	0	0	0	0	0	0
Number and value of blocked or frozen accounts for financial sanctions purposes as at the year end	1	147,417	19	988,248	17	960,403

Note: "Blocked or frozen accounts" have been interpreted as blocked or frozen policies.

Note: The number of blocked or frozen accounts for financial sanctions purposes as at each year end relate in the main to one Life Company. However the data in the 2020 return did not indicate that the accounts previously reported as blocked or frozen in the 2018 and 2019 returns had been released during 2020.

7 Delivery of services: face to face, use of introducers and third parties – Life Sector

7.6 How a firm delivers its products and services to customers can range from direct relationships with face to face interaction before a business relationship is established, or an occasional transaction conducted, to situations where relationships are established remotely directly by the customer, or through introducers / third parties (and sometimes through more than one layer of introducer / third party).

In 2020, Life Insurers reported **46,831** new policies issued (***2019: 43,797; 2018: 45,739***) in the year with **39,480** new customer relationships (***2019: 43,722; 2018: 45,774***).

On a unique customer basis Life Insurers reported **39,719** new customers in 2020 (***2019: 44,147; 2018: 45,385***).

Of these new customers, **97.8%** were reported as introduced business (***2019: 97.6%; 2018: 96.7%***), whereas direct business accounted for **1.8%** (***2019: 1.9%; 2018: 2.1%***), with the remainder of new customers being introduced by referrals from existing clients.

In 2020 all life companies reported that **77.9%** (***2019: 71.4%; 2018: 87.8%***) of relationships were established on a non-face-to-face basis, and **22.1%** (***2019: 28.6%; 2018: 12.2%***) were met by a related party. It was reported that no relationships were established through meeting the customers face-to-face. All but 4 companies reported this on an "actual basis".

7.7 For introduced business, the main source of introductions were from overseas financial advisory firms. For customers introduced to Life Insurers, for 2020 and 2019, the top 5 residency of the introducers (in terms of the number of clients introduced) were:-

1. United Arab Emirates
2. Argentina
3. Hong Kong
4. United Kingdom
5. Malta

Table 9 – Residency of Introducers by Region

Residency of persons who introduced new business relationships	December 2020	December 2019	December 2018
Africa	785	322	485
Americas	11,177	10,327	10,469
Asia (inc Middle East)	20,923	26,613	25,187
Channel Islands	33	3	141
EU (exc EEA and Switzerland)	1,606	1,272	1,508
Isle of Man	112	50	127
Oceania	0	3	1
Other Europe	732	666	1,045
UK	3,473	3,810	5,147
Total	**38,841**	**43,066**	**44,110**

7.9 Where introducers are utilised, Life Insurers reported that, in the majority of cases, they obtain evidence of verification of identity of the customer from the introducer, rather than utilising the concessions available in law (relying on the introducer to hold that evidence, where an introducer is eligible to do so). The only exemption reported to be used by Life Insurers was Acceptable Applicants. In 2020 2.8% of the total new customer relationships used the Acceptable Applicant concession (***2019: 3.7%; 2018: 6%***).

7.10 In relation to reliance on third parties for due diligence for new customer relationships during 2018 to 2020, it was reported that in the majority of cases original certified copies of customer due diligence (CDD) were retained by the Life Insurer. One Life Insurer reported that they retained certified copies of certified copies. Some firms reported that they collected CDD directly from the customer or other party.

7.11 Life Insurers were requested to provide information on the extent of introductions from other Isle of Man entities indicating the number of entities by type which have introduced customers to the firm and the number of accounts controlled by the Isle of Man entities.

In 2020 a total of **9** Isle of Man institutions were used to introduce clients (***2019: 23; 2018: 55***), of which **186** policies were controlled by the Isle of Man entities (***2019: 571; 2018: 790***). This shows a decrease in the use of Isle of Man institutions for the introduction of customers over the three year period. The Life Insurers reported that these introductions were mainly through Isle of Man Trust and Corporate Service

Providers (TCSP) or other entities regulated by the Authority.

See ***Table 10*** below for full details of information provided by the Life Companies.

Table 10: Cross-dependency of Isle of Man institutions

	December 2020		December 2019		December 2018	
	Number of entities used to introduce clients	Number of accounts controlled by IOM entities	Number of entities used to introduce clients	Number of accounts controlled by IOM entities	Number of entities used to introduce clients	Number of accounts controlled by IOM entities
TOTAL - Cross-dependency of Isle of Man institutions	**9**	**186**	**23**	**571**	**55**	**790**
Regulated person - IOM deposit taker	0	0	0	0	0	0
Regulated person - IOM TCSP	1	172	13	554	8	231
Regulated person - IOM life company	0	1	0	1	0	1
Other FSA-regulated person	8	13	10	16	47	558
Online gambling entity	0	0	0	0	0	0
IOM advocate/legal practitioner	0	0	0	0	0	0
IOM accountant	0	0	0	0	0	0

Annex 1 – Data Quality

The following matters should be noted in relation to the data provided in this report:-

- The report is based on data provided by firms; the Authority does not check the accuracy of data for every firm but may raise questions with firms.
- Parts of some firms' data is provided on a "best endeavours basis" and therefore cannot be considered as 100% accurate.
- The figures for customer numbers, including PEPs, is based on a simple sum of individual firms' data. A customer of one firm may also have relationships with another and therefore be counted twice in this data.
- The quality of reporting varies across Life Insurers between "policyholders" and "policies" for various data sets, and there are also differences in the reporting basis of policies or policyholders across the 3 years by individual companies. In addition, there were significant differences in the year on year data for some individual firms without explanation. Where there are changes in the data from the previous period, supporting commentary should be provided in the return.
- Due to the different company structures there were variances in the reporting of employee figures. Some Life Insurers included the figures for staff employed by a subsidiary company of the group as "contracted through a contract for services", other companies reported the figures solely in the return for the employing company such as the Insurance Manager. Some companies reported the same employee figures for all Life Insurers in their group, which duplicated the data.