



**ISLE OF MAN**  
**FINANCIAL SERVICES AUTHORITY**

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## **Preventing Financial Crime**

**Analysis of firms' data**

**(2020 and 2021)**

**LIFE INSURERS**

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## 1. Introduction and Key Findings for Life Insurers

- 1.1 The Isle of Man Financial Services Authority's ("the Authority") regulatory objectives<sup>1</sup> 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 show a view across sectors<sup>2</sup>, excluding gambling, that are subject to the Island's AML/CFT framework; this can help stakeholders, including Government and regulated and registered entities, understand some of the features of the sectors pertaining to financial crime risk. 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**. 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 two years of data and covers areas such as the geographical profile of customers and beneficial owners, the firms' 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<sup>3</sup> as at 31 December 2021 and 31 December 2020.

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

	2021	2020
Number of Life Insurers	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.

<sup>1</sup> as set out in the Insurance Act 2008 ("IA08")

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

<sup>3</sup> The annual return contains data either as at the end of the reporting period, or relating to the whole calendar year, depending on the context of the question.

There is therefore a significant cross border aspect to the Island's Life sector. The data 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.

- 1.7 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, to reduce the **residual risk**. This ongoing assessment ultimately feeds into the [Island's National Risk Assessment](#), where the overall risk for Life Insurance is currently rated as **medium** taking into account the threats and vulnerabilities, balanced against the controls in place in the sector.

## 2. Objectives

- 2.1 The gathering and analysis of data from firms about AML/CFT helps the Authority to achieve the regulatory objective of *"the reduction of financial crime"*.
- 2.2 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:-
- 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.

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

### 3. Customer risk profile – Life Insurers

#### A. Geographical profile - residency

3.1 Firms are required to report their customer relationships according to the residency of the customer, based on the ISO country code standard. 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.

3.2 The total number of policyholders with inforce policies reported by Life Insurers as at 31 December 2021 was **725,893 (2020: 753,723)**. At the end of 2021, Life Insurers reported that **86.5%** of customers were natural persons (**2020: 87.8 %**). Some of these customers may be customers of more than one firm that reports data.

Of the natural persons, **50.5%** are resident in Asia (including Middle East) (**2020: 51.6%**), **21.5%** in the UK (**2020: 21.5%**) and **19.8%** in the Americas (**2020: 18.9%**).

Of the non-natural persons, the most common residency (of the legal arrangement) remained as the UK at **69.2% (2020: UK 65.7%)** with **8.5%** resident in the EU (excluding EEA and Switzerland) (**2020:9.9%**) and **5.8%** resident in Other Europe (**2020: 6.4%**). The UK is the only jurisdiction that has seen a material increase from the previous year.

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**

	Customer relationships: Natural persons (% of total customers)		Customer relationships: Non-natural persons <sup>4</sup> (% of total customers)		Total customer relationships (% of total)	
	2021	2020	2021	2020	2021	2020
Asia (including Middle East)	43.7%	45.3%	0.7%	0.7%	44.3%	46.0%
UK	18.6%	18.9%	9.4%	8%	27.9%	26.9%
Americas	17.1%	16.6%	0.3%	0.3%	17.5%	16.9%
EU (excludes EEA and Switzerland)	3.1%	3.1%	1.1%	1.2%	4.2%	4.3%
Africa	2.1%	2.1%	0.1%	0.2%	2.2%	2.2%
Other Europe	0.9%	0.9%	0.8%	0.8%	1.7%	1.7%
Channel Islands	0.1%	0.1%	0.6%	0.6%	0.8%	0.8%
Oceania	0.8%	0.8%	0%	0%	0.8%	0.8%
Isle of Man	0.1%	0.1%	0.4%	0.4%	0.6%	0.5%
<b>TOTAL</b>	<b>86.5%</b>	<b>87.8%</b>	<b>13.5%</b>	<b>12.2%</b>	<b>100%</b>	<b>100%</b>

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<sup>4</sup> For a corporate or trust customer the residency will likely be reported as the country of incorporation / establishment of that company or trust (or of the trustee).

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

Country of residence	Natural Persons (% of total natural persons)		Country of residence	Non-natural persons (% of total non-natural)	
	2021	2020		2021	2020
UK	18.6%	18.9% (1)	UK	9.4%	8.0%
United Arab Emirates	16.1%	17.4% (2)	Malta	1.0%	1.0%
Argentina	10.4%	10.0% (4)	Gibraltar	0.7%	0.7%
Hong Kong	9.8%	10.6% (3)	Guernsey	0.6%	0.6%
Japan	7.3%	6.6% (5)	Isle of Man	0.4%	0.4%
Singapore	2.0%	2.0% (6)	United Arab Emirates	0.2%	0.2%
China	1.6%	1.6% (7)	Japan	0.2%	0.2%
Taiwan (Province of China)	1.4%	1.5% (8)	Argentina	0.2%	0.2%
Brazil	1.2%	1.2% (9)	Hong Kong	0.1%	0.2%
Chile	1.0%	0.9% (10)	Sweden	0.1%	0.1%

3.3 In summary, the jurisdictional profile of the customer base for **Life Insurers** is wide in its scope, including customers resident in higher risk countries, 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**

3.4 Life Insurers 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, **74.0%** of beneficial owners are resident in the UK (**2020: 73.5%**), followed by the EU (excluding EEA and Switzerland) at **6.1%** (**2020: 6.4%**) and then Asia at **5.7%** (**2020: 5.9%**).

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

**Table 3a: Residency of the beneficial owners of non-natural customers**

	2021		2020	
	Beneficial owners	Entities	Beneficial owners	Entities
UK	74.0%	69.2%	73.5%	65.7%
EU (exc EEA and Switzerland)	6.1%	8.5%	6.4%	9.9%
Asia (inc Middle East)	5.7%	4.9%	5.9%	5.5%
Other Europe	4.9%	5.8%	5.0%	6.4%
Channel Islands	3.3%	4.7%	3.4%	5.2%
Americas	2.3%	2.4%	2.2%	2.5%
Africa	1.6%	1.1%	1.8%	1.3%
Isle of Man	1.6%	3.3%	1.5%	3.4%
Oceania	0.4%	0.2%	0.3%	0.2%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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)**

	Country of residence of the beneficial owner (% of total number of beneficial owners)	
	2021	2020
UK	74.0%	73.5% (1)
Malta	4.7%	5.2% (2)
Gibraltar	4.6%	4.7% (3)
Guernsey	3.1%	3.2% (4)
Japan	2.0%	2% (5)
Isle of Man	1.6%	1.5% (7)
United Arab Emirates	1.6%	1.6% (6)
Hong Kong	1.0%	1.1% (8)
Argentina	1.0%	1.0% (9)
Sweden	0.5%	0.4% (12)
Kenya	0.4%	0.5% (10)

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.

- 3.5 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 a range of money laundering / terrorist finance, and sanctions related threats, including through more complex structures.

### C. Politically exposed persons and other high risk customers

3.6 **Tables 4a and 4b** 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. PEPs<sup>5</sup> include people with prominent public jobs who may be in a position to abuse their role for private gain.

3.7 At the end of 2021 Life Insurers reported **6,441 customers who are, or are associated with, a PEP<sup>6</sup> (2020: 6,278)**, including **6,427 related to foreign PEPs (2020: 6,272)**. 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.

**In 2021, 23.1% of life insurers reported they had domestic PEPs (2020: 7.6%) and 100% reported they had foreign PEPs (2020: 100%).**

**Table 4a: PEP relationships**

	Number of PEP relationships	
	2021	2020
Customer who are, or are associated with, politically exposed persons (PEPs)	6,441	6,278
Of which are foreign PEPs	6,427	6,272
Of which are domestic PEPs	14	6

3.8 At the end of 2021 (and 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 for PEPs was generally daily for all customer risk types; noting two companies reported they continue to screen on a monthly basis.

3.9 The return allows the Life Insurer to provide this data on either a policy or policyholder basis. For 2021 (and 2020) more than half of the firms reported this data on **a policy**

<sup>5</sup> PEP is defined in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019.

<sup>6</sup> The actual number of individual (natural) PEPs may be lower than the number of customers reported.

**basis**, with 6 firms reporting on a **policyholder basis**. (Note that a policyholder may hold more than one policy).

At the end of 2021, **6** Life Insurers reported they had **3,637 higher risk policyholders (2020: 6/5,827)**; and **7** Life Insurers reported they had **19,723 higher risk policies (2020: 7/25,532)<sup>7</sup>**; 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.

**Table 4b: High-risk customer relationships**

	Total number of high risk customer relationships (and as a % share of total customer relationships for data reported on policy and policyholder basis)	
	2021	2020
Total number of policyholders reported (6 firms)	356,373	374,719
Total high risk policyholders (includes any PEPs assessed as higher risk)	3,637 (1.0%)	5,827 (1.6%)
Total number of policies reported (7 firms)	359,214	371,066
Total high risk policies (includes any PEPs assessed as higher risk)	19,723 (5.5%)	25,532 (6.9%)

3.10 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.

The number of high risk customers, as a proportion of all customers, on both a policy and policyholder basis declined in 2021 compared to 2020. This decline was steady across all firms with one Life Insurer reporting a larger reduction in the number of customer relationships assessed as higher risk following an update to their Customer Risk Assessment Methodology.

<sup>7</sup> Each of the 13 firms reported the data on the same basis as the 2020 reporting period.

**Table 4c: New High-risk customer relationships**

	Total number of <u>new</u> high risk customer relationships (and as a % share of <u>new</u> customer relationships)	
	2021	2020
Total number of new customers on-boarded in the reporting period	40,216	39,515
New high risk customers on-boarded in the reporting period (includes any PEPs assessed as higher risk)	317 (0.8%)	861 (2.4%)

- 3.11 The number of new high risk customers on-boarded, as a proportion of all new customers on-boarded, declined substantially in 2021 compared to 2020. This decline was steady across all firms with one Life Insurer reporting a larger reduction in the number of new customer relationships assessed as higher risk following an update to their Customer Risk Assessment Methodology.
- 3.12 Overall, PEPs and other high risk customers represent a **relatively small proportion** of the total customer base of Life Companies.
- 3.13 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.

## 4. Tackling Financial Crime – Life Insurers

### A. Resourcing the fight against financial crime

- 4.1 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 2021 Life Insurers reported that they collectively employ (including through contracts for services) **1,764 staff in the Isle of Man (2020: 1,709)<sup>8</sup>**, of which **78 (4.4%)** were reported as being in compliance and prevention of financial crime roles (**2020: 71 / 4.2%**).

<sup>8</sup> The 2020 figure has been updated since the previous report to include staff figures reported in the Insurance Manager returns.

It should be noted that compliance roles are not solely focused on financial crime. Life Insurers also reported **4 FTE compliance / financial crime vacancies** at the end of 2021 (**2020: 1.6**).

- 4.2 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 2021, Life Insurers reported that **3,078 general refresher or induction / detailed training places were filled (2020: 2,745)**. This effectively represented **100%** of total staff employed (including directors) (**2020: 100%**).

In addition, Life Insurers reported that **46 staff** received additional specialist training (**2020: 72**).

## **B. Outsourcing of processes to group entities or third parties**

- 4.3 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.

- 4.4 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, to a more limited extent, third parties. The most extensive use of outsourcing was for the screening of staff at take-on, and the least use was, as expected, for MLRO and Compliance activity. In general, the position for 2021 was broadly consistent with that for 2020.

**Table 5** below provides more information (for 2021 only).

**Table 5: Outsourcing of AML/CFT activity**

Description	Undertaken by the Firm	Outsourced to Group	Outsourced to Third Parties
<b>Client on-boarding<sup>9</sup></b>			
<i>Customer risk assessments</i>	Yes - 11	Yes - 2	No
<i>Collection of customer due diligence</i>	Yes - 11	Yes - 2	No
<i>Customer screening</i>	Yes - 11	Yes - 2	Yes - 1
<i>Customer acceptance<sup>10</sup></i>	Yes - 11	Yes - 2	No
<b>Ongoing monitoring</b>	Yes - 11	Yes - 3	No
<b>MLRO &amp; Compliance activity<sup>11</sup></b>			
<i>MLRO activity</i>	Yes - 11	Yes - 2	No
<i>DMLRO activity</i>	Yes - 9	Yes - 2	No
<i>Compliance activity</i>	Yes - 11	Yes - 2	No
<b>Staff screening and take-on<sup>12</sup></b>	Yes - 8	Yes - 6	Yes - 5

### C. Monitoring for, and reporting of, financial crime

- 4.5 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 2021, **225** 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 (**2020: 231**). There were no terrorism related internal reports made to the MLRO in 2021 (**2020: none**).
- 4.6 MLROs must consider these reports, and decide whether a formal submission to the **Isle of Man Financial Intelligence Unit<sup>13</sup>** ("FIU") is justified, and must be registered with the FIU's "Themis" system to be able to make reports. At the end of 2020 and 2021, all Life Insurers reported they were registered on "Themis".
- 4.7 In 2021, after investigation by MLROs, **85** cases of knowledge or suspicion of money laundering were reported to the FIU, representing a conversion rate from internal disclosures of **37.8%** (**2020: 88, conversion rate 38%**). There was **1** report that was

<sup>9</sup> Outsourcing may be for only customer segments or part of a process.

<sup>10</sup> Outsourcing of business acceptance was for very specific purposes, and subject to the consent of the Authority.

<sup>11</sup> Any full outsourcing was intra-group within the Isle of Man.

<sup>12</sup> All firms which did not undertake this "in-house" reported that they outsourced to their groups and/or a third parties.

<sup>13</sup> See <https://www.fiu.im/>

terrorism related (**2020: 1**). Further, Life Insurers reported **32** cases to the FIU regarding general intelligence (**2020: 48**).

**In 2021, 46% of life insurance companies informed the FIU of suspicious activity (2020: 61%).**

- 4.8 In 2021 Life Insurers also handled **45** requests from law enforcement and other competent authorities (**2020: 22**). Of these, **33** explicitly related to money laundering (**2020: 9**) and there were no requests in relation to terrorist financing (**2020: none**).

**In 2021, 46 % of life insurers received and handled enquiries from law enforcement (2020: 38%).**

- 4.9 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	2021	2020
Number of internal Money Laundering disclosures to the MLRO	225	231
Number of external Money Laundering disclosures to the FIU	85	88
<i>Percentage of internal disclosures converted to external disclosures made to the FIU</i>	37.8%	38.1%
Number of internal Terrorist Financing disclosures to the MLRO	0	0
Number of external Terrorist Financing disclosures to the FIU	1	1
Section 24 disclosures to the FIU	32	48
<b>Enquiries received from law enforcement authorities</b>	<b>35</b>	<b>10</b>
<i>Of which were Money Laundering related</i>	33	9
<i>Of which were Terrorism related</i>	0	0
<i>Other enquiries or reason not known</i>	2	1
<b>Enquiries received from other competent authorities</b>	<b>10</b>	<b>12</b>
<i>Of which were Money Laundering related</i>	0	0
<i>Of which were Terrorism related</i>	0	0
<i>Other enquiries or reason not known</i>	10	12

## D. Refusing and blocking services because of financial crime risk

4.10 Concerns relating to financial crime may lead to firms turning away a prospective customer. In the year ended 31 December 2021 Life Insurers reported they **declined to on-board 8** potential new relationships because of financial crime, terrorism or sanctions related concerns (**2020: 16**). In some cases, Life Insurers would not always have knowledge or suspicion of financial crime but customers 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 2021.

**Table 7** provides a further breakdown.

4.11 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”<sup>14</sup>. During the year ended 31 December 2021 Life Insurers **terminated 1** existing relationships because of financial crime, terrorism or sanctions related concerns (**2020: 1**).

The total number of **terminated cases** equated to **less than 0.01%** of all customer relationships that were closed or terminated in 2021 (**2020: less than 0.01%**).

4.12 In addition to terminating relationships, firms may be requested by law enforcement agencies to block or freeze accounts, or may themselves put additional controls around accounts if information is required from a customer. At the end of 2021 there were **38 accounts blocked or frozen** for money laundering or terrorism (**2020: 115**). A further **32 accounts blocked or frozen** for reasons other than money laundering, terrorism or sanctions (**2020: 13**).

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<sup>14</sup> 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 - summary**

Description	2021		2020	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of potential new customer relationships declined for ML/FT or sanctions purposes	8		16	
Number of customer relationships terminated for ML/FT or sanction purposes	1		1	
Blocked or frozen accounts for AML/CFT purposes – subject to consent including restraint orders etc.	38	14,072	115	15,699
Blocked or frozen accounts for any other purpose (e.g. gone away)	32	1,330	13	2,202

*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 banking system as gatekeeper

- 4.13 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 the extent to which they are utilised.
- 4.14 In 2021, of the **13 Life Insurers, 5 firms** confirmed they only maintained bank accounts within the Island's banking sector for their own funds (**2020: 5**). Of the other **8 firms**, some were part of groups with operations outside the Isle of Man.
- 4.15 In respect of client funds, of the **13 Life Insurers, 5 firms** reported that at least some clients' funds are held outside the Isle of Man's banking system (**2020: 5**).
- 4.16 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 38.9%. 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.
- 4.17 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 **no** cash activity.

## 5. Managing and reporting of sanctions – Life Insurers

- 5.1 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.
- 5.2 At the end of 2021, **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 (which includes terrorism lists). For the latter the frequency of screening was generally daily for all customer risk types; noting that one company reported they still screen on a monthly basis.
- 5.3 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 2021 there were **23 accounts blocked or frozen** for financial sanctions purposes (**2020: 1**) with an aggregate value of **£1,464,077 (2020: £147,417)**.
- 5.4 The law requires firms to identify and report any suspected breach of sanctions<sup>15</sup> 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 2021, **1 disclosure** was made for suspected breach of sanctions (**2020: 0**)<sup>16</sup>.

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<sup>15</sup> 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.

<sup>16</sup> The figure for 2020 has been updated from the previous sector report due to restated data being received from firms.

**Table 9: managing and reporting sanctions**

Description	2021		2020	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of disclosures made for suspected breach of sanctions	1		4	
Accounts blocked or frozen <sup>17</sup> in the year for financial sanctions purposes	4	60	2	0
Blocked or frozen accounts for financial sanctions purposes released in the year	0	0	2	0
Number and value of blocked or frozen accounts for financial sanctions purposes as at the year end <sup>18</sup>	23	1096	20	1,062

## 6. Delivery of services: face to face, use of introducers and third parties – Life Insurers

- 6.1 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).
- 6.2 In 2021, Life Insurers reported **38,932** new policies issued in the year (**2020: 46,831**) with **40,216** new customer relationships (**2020: 39,480**).
- 6.3 On a unique customer basis, Life Insurers also reported **40,088** new customers in 2021 (**2020: 39,719**). Of these new customers, **96.5%** was reported as introduced business (**2020: 97.8%**), whereas direct business accounted for **2.9%** (**2020: 1.8%**).
- 6.4 In 2021, life companies reported that **96.6%** (**2020: 98.1%**)<sup>19</sup> of relationships were established on a non-face-to-face basis, and **3.4%** (**2020: 1.9%**) were met by a related party. It was reported that no relationships were established through meeting the customers face-to-face. All but 3 firms reported this on an “actual basis”.

<sup>17</sup> “Blocked or frozen accounts” have been interpreted as blocked or frozen policies.

<sup>18</sup> The number and value for 2020 have been updated from the previous sector report due to restated data being received from firms.

<sup>19</sup> The “non-face-to-face” and “met by a related party” figures for 2020 have been updated from the previous sector report due to restated data being received from firms.

6.5 For introduced business, the main source of introductions were from overseas financial advisory firms. For customers introduced to Life Insurers, the top 5 residency of the introducers (*in terms of the number of clients introduced*) for 2021 and 2020 were:-

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

6.6 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 2021 **3.9%** of the total new customer relationships used the Acceptable Applicant concession (**2020: 3.3%**)<sup>20</sup>.

6.7 In relation to reliance on third parties for due diligence for new customer relationships during 2021, 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.

6.8 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 2021 a total of **11** Isle of Man institutions were used to introduce clients (**2020: 9**), of which **238** policies were controlled by the Isle of Man entities (**2020: 186**). The Life Insurers reported that these introductions were mainly through other entities regulated by the Authority.

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

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<sup>20</sup> This percentage figure has been updated from the previous sector report due to restated data being received from firms.

**Table 10: Cross-dependency of Isle of Man institutions**

	2021		2020	
	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
<b>TOTAL - Cross-dependency of Isle of Man institutions</b>	<b>11</b>	<b>238</b>	<b>9</b>	<b>186</b>
Regulated person - IOM deposit taker	0	0	0	0
Regulated person - IOM TCSP	0	172	1	172
Regulated person - IOM life company	0	1	0	1
Other FSA-regulated person	11	52	8	13
Online gambling entity	0	0	0	0
IOM advocate/legal practitioner	0	0	0	0
IOM accountant	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 has been 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 be counted twice in this data.
- The quality of reporting varies across Life Insurers between "policyholders" and "policies" for various data sets.