Money Laundering and the Life Insurance Industry: The Role of the IFA.

Research Project for Emerging Issues/Advanced Topics Course

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1 Introduction and Objective

A case of money laundering

A husband and wife had taken out a life-insurance policy each in their own name with annual premiums. In the event of the death of one of the spouses, the other spouse would become the beneficiary of the insurance. The holder of the account through which the premiums had been paid was found not to be the policy-holders but a company abroad of which they were directors. However, this was a life-insurance policy taken out privately by the couple and not by the company. Investigation revealed that the scenario set up had been intended to conceal the illicit origin of the funds which originated from serious and organized tax fraud for which the couple involved was known.

Source: The Financial Action Task Force 2004 – 2005 Report on Money Laundering and Terrorist financing Typologies

When one thinks of the avenues used to launder money, life insurance companies do not easily come to mind. There is a widely held perception within the insurance industry, that money laundering is something that happens somewhere else, involving other businesses and only criminals. The truth is, it can happen anywhere and anytime as money launderers are becoming more innovative and moving away from traditional avenues such as banks to non-conventional avenues such as the insurance industry to achieve their sole objective which is to "*convert cash into some other form of asset in order to conceal its illegal origins*" [1].

The 2004 – 2005 Financial action Task Force ("FATF") research on Money Laundering ("ML") and Terrorist Financing ("TF") indicates that the insurance sector, like other financial services sectors is exposed to the threat of money laundering, due to the nature and types of products they offer. The insurance industry has undergone a transformation, and may become increasingly attractive to money launderers. While

[1] Royal Canadian mounted Police (RCMP) 2008, *A Preventive Guide for Small Business & Currency Exchanges in Canada* available at: http://www.rcmp-grc.gc.ca/poc/launder_e.htm

traditional insurance policies remain an important part of the life insurance business, agents and brokers now offer a range of investment services featuring financial products that can be purchased and subsequently transferred, redeemed or sold, creating new opportunities for money laundering[2].

The number of Canadians with life insurance policies is steadily increasing. In 2004, about 24 million Canadians and their dependants were covered by some form of life and health insurance, representing roughly 75% of the population of Canada at that time. The total value of life insurance owned by Canadians over the same period was over CAD2.6 trillion[3], yet there appears to be low detection of ML within the insurance industry in comparison to the size of the industry and in comparison to other parts of the financial services industry. The total domestic asset size of Canada's life and health insurance companies is about 25%[4] of the domestic asset size of banks, yet the suspicious transaction reporting levels for the life insurance companies when compared to that of the banks is less than 1%.

According to The Financial Transactions and Reports Analysis Centre of Canada's (FINTRAC's) reported statistical data, the number of Suspicious Transactions Reports (STRs) submitted by banks tripled from just over 4,000 to just over 12,000 from 2003 to 2006. Over that same period, the STR's reported by the "Other" category which comprised of casinos, life insurance, real estate and securities dealers decreased from 740 to just fewer than 600. On their own, the number of STR's filed by the life insurance

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[2] United States of America, 2007 National Money Laundering Strategy available at http://www.fincen.gov/news_room/rp/files/nmls_2007.pdf

[3] Summary of the Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, Canada, February 29, 2008, available at http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf.

[4] Department of Finance. August 2001. *Canada's Financial Services Sector; Canada's Life and Health Insurers*: http://www.fin.gc.ca/toce/2001/health_e.html

industry decreased from an average of 51 over the period 2004 to 2005, compared to 32 STR's filed in 2005-2006.

When compared to the United States, Securities and futures industries Suspicious Activity Report filings (which also include filing data for certain segments of the insurance industry) doubled from just over 4,000 to just over 8,000 from 2003 to 2006[5].

Given the growing size of the insurance industry in Canada and the focus placed on life insurance products as a conduit for money laundering by authoritative international bodies, one might wonder, why is the suspicious transaction reporting levels by the insurance industry relatively insignificant and decreasing?

The objective of this paper is to explore the extent of money laundering in Canada which employs life insurance products as a conduit, whether that money laundering activity is being detected by life insurance companies and finally, all to help determine the role of an Investigative Forensic Accountant (IFA) in the improvement of the process and systems for unusual and suspicious transaction identification, investigation and reporting.

The report is organized into the following sections:

In the first section, the report explains money laundering as an offence and an issue worthy of concern. The following section provides a framework to understand the stages of money laundering activities. To relate the analysis to the insurance industry, the report sets out the insurance industry structure, the money laundering regulation to which the industry is subject, the susceptibility of the industry to money laundering and the

[5] The SAR Activity Review – By the Numbers Issue 9 (January 2008) available at http://www.fincen.gov/news_room/rp/files/sar_by_numb_09.pdf

effectiveness of their suspicious transaction reporting regime. To enrich that analysis, the results of a survey of industry experts are summarized in the preceding section.

Finally, we explore the role of an investigative and forensic accountant in assisting the insurance industry with regulatory compliance towards the deterrence of money laundering activities.

2 Executive Summary

In a study of successful RCMP proceeds of crime cases, it was found that in the course of a single money laundering operation, a number of different sectors will often be used. Next to banks or deposit institutions, the insurance sector was implicated in 64% of the cases reviewed[6]. The insurance industry is generally susceptible to money laundering because of their size, complexity of the products they offer and the manner in which their products are segmented and distributed. The business of life insurance companies is no longer just confined to traditional life insurance. In order to gain additional market share, insurance companies offer products such as annuities, segregated funds and mortgages. These products have features such as investment capabilities, policy loans, features of stored value and transferability, withdrawals and surrenders, ease of accessibility and availability which make them attractive to money launderers.

To combat and assist in the prevention and detection of money laundering, the Canadian Parliament enacted the Proceeds of Crime (Money Laundering) Act in 2000. Life insurance companies are currently subject to the act and have been since November 2001. Insurance companies have had to report transactions to the Financial Transaction Analysis Centre of Canada (FINTRAC), Canada's financial intelligence unit, if there are "*reasonable grounds to suspect that the transactions are related to the commission of a money laundering offence*"[7]. FINTRAC in turn collects, analyzes and discloses this information to law enforcement and The Canadian Security Intelligence Service (CSIS).

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[6] Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004

[7] The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), What are suspicious Transactions, available at http://www.fintrac-canafe.gc.ca/publications/guide/Guide2/2-eng.asp#222

According to FINTRAC's 2006-2007 annual report, a total of 193 cases were disclosed to law enforcement with a total dollar value of $9.8million. This amount was nearly double the value of the previous year. Of the 193 cases, 65% of case disclosures were supported by the financial information contained in the suspicious transactions reports (STR's) provided by the reporting entities which also include reports submitted by the life insurance industry. This shows that suspicious transaction reports contributed to disclosures to law enforcement, which feed into investigations and prosecutions that were either already underway or in an increasing number of instances, they identified completely new cases of suspected money laundering[8].

The STR reporting levels for the life insurance industry has decreased by about 37% over the period from 2004 and 2006. In a survey of industry experts, 40% attributed the reasons for the decline in the STR reporting levels to lack of training and allocation of resources to strengthening their anti-money laundering regime. The other 60% attributed the low STR reporting levels to lack of automated systems for AML detection, non-acceptance of cash as a method of premium payment by the industry and lack of senior management support.

Investigative Forensic Accountants possess certain professional skills and attributes such as investigative mentality and critical skepticism, accounting, audit and fraud knowledge, knowledge of rules of evidence and communication skills that can assist life insurance companies in not only conducting compliance review engagements but most importantly assist with the identification, investigation and reporting of

[8] The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), 2007 Annual Report available at: http://www.fintrac-canafe.gc.ca/publications/ar/2007/41-eng.asp

suspicious transactions to ensure compliance with the Proceeds of Crime Money Laundering and Terrorist Financing Act.

3 Money Laundering Defined

The United Nations Office on Drugs and Crime (UNODC) defines money laundering as the method by which criminals disguise the illegal origins of their wealth and protect their asset bases, so as to avoid suspicion of law enforcement and to prevent leaving a trail of incriminating evidence[9]. According to the Financial Action Task Force (FATF) the goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin[10].

The term "money laundering" is not a new phenomenon. Although the history and origin of money laundering is uncertain, some scholars claim that the term "money laundering" originated from the Italian Mafia ownership of laundromats in the United States. Gangsters there were reportedly earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor. They needed to show a legitimate source for these monies to avoid arousing law enforcement suspicion and scrutiny. One of the ways in which they were able to do this was by purchasing outwardly legitimate businesses and to mix their illicit earnings with the legitimate earnings they received from these businesses[11], a money laundering technique known as commingling. The underlying fundamentals (criminals trying to legitimize illegally obtained funds to avoid suspicion)

[9] The United Nations Office on Drugs and Crime (UNODC) : http://www.unodc.org/unodc/en/money-laundering/introduction.html
[10] The Financial Action Task Force (FATF) : http://www.fatf-gafi.org
[11] http://www.laundryman.u-net.com/page1_hist.html

are still the same, although the number of methods used in money laundering may have multiplied and are now more sophisticated.

3.1 The Scale of Money laundering

Money laundering and criminal activities are clandestine by nature, and consequently, it is difficult to estimate the amount of money laundered in an economy[12].

The amount of money laundered in an economy is linked to the proceeds of crime it generates. The FATF commented in Canada's mutual assessment that although there was no estimate for the total proceeds of crime in Canada, annual narcotic sales are estimated to amount to several billion of dollars[13]. Based on the drug seizures conducted in 2006, the RCMP estimates the narcotics market in Canada to be between \$11 to \$47 billion[14] and these funds need be laundered. Money laundering can therefore be viewed as a multibillion-dollar problem in Canada. It is an integral element of organized criminal activity, and is the proven method by which organized crime groups seek to transform the proceeds of drug trafficking, contraband goods and people smuggling, extortion, fraud and other activities into apparently legitimately earned funds[15].

The United Nations Office on Drugs and Crime (UNODC) estimates that the amount of money laundered globally in one year is 2 - 5% of its GDP, in Canada's case, \$22 to \$55 billion[16]. FINTRAC estimates that some \$500 billion to \$1 trillion (U.S.) is laundered worldwide each year[17].

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[12] Office of the Auditor General of Canada; 2003. *Canada's Strategy to Combat Money Laundering;*
[13] The Financial Action Task Force (FATF). Third Mutual Evaluation on Anti-Money Laundering and the Combating of the Financing of Terrorism, Canada, February 29, 2008
[14] RCMP Integrated Proceeds of Crime (IPOC) 2006
[15] The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC); http://www.fintrac-canafe.gc.ca
[16] Criminal Intelligence Service Canada (CISC) 2007. *Annual Report On organized crime in Canada*
[17] FINTRAC 2003; http://www.fintrac.gc.ca/publications/guide/Guide1/1-eng.asp#223

With no definite notion of the total amount of money laundered in Canada or globally, one thing is for certain, the extent of the problem is large, existent and may continue to grow exponentially over time.

3.2 Why is it important to constrain money laundering?

It has been suggested that unconstrained money laundering fuels crime and criminal organizations. Money laundering counter-measures are aimed at constraining profits derived from criminal activities and most criminal proceeds in Canada are generated from narcotics related offences[18]. In a study of successful RCMP proceeds of crime cases, it was found that three-quarters involved a narcotics-related offence[19]. Laundered proceeds of crime provide seemingly legitimate financial support to drug dealers, terrorist organizations, arms dealers and other criminals to amass wealth and operate and expand their criminal empires. Investigations have revealed that those involved in money laundering attempts manipulate financial systems in Canada and abroad to foster a wide range of illicit activities. The economic and political influence of criminal organizations can potentially weaken the social fabric, collective ethical standards and, ultimately, the democratic institutions of society[20].

Beyond furthering crime, money laundering undermines the legitimate private sector through criminal price subsidies, destabilizes the integrity of financial markets because of irrational and unpredictable investments and fund flows, complicates economic policy decisions, and impacts international trade relations[21].

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[18] Matthew McGuire, The Bottom Line May 2008, *Money laundering no dirty little secret*
[19] Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004
[20] FINTRAC 2003; http://www.fintrac.gc.ca/publications/guide/Guide1/1-eng.asp#223
[21] John McDowell and Gary Novis, Economic Perspectives, U.S. State Department, May 2001.

3.3 Stages of Money Laundering

To appreciate the extent of money laundering, it is important to understand the typical methods of money laundering through a four stage framework. The stages of money laundering are as follows:

(a) Commission of a Predicate Offence

Source: The United States Drug Enforcement Agency (DEA)

Money laundering starts with the commission of a predicate offence such as drug trafficking, credit or debit card fraud, kidnapping, official corruption, white-collar crime or any other criminal offence that may be prosecuted as an indictable offence under Canadian Criminal Code or any other Act of Parliament, other than an indictable offence prescribed by regulation[22].

[22] Canadian Criminal Code PART XII.2: Proceeds of Crime Interpretation

Following the commission of the predicate offence, the next step is an attempt by the launderer to conceal the true origin of the illegal funds. The commonly observed stages are:

(b) Placement

This stage involves the introduction of illicit funds into the financial system, with a view to conceal the true origin of funds and to avoid attracting scrutiny. Illegal proceeds are introduced into the financial system by way of a cash deposit into a financial institution or a lump sum purchase of a life insurance product (e.g. an annuity product or a purchase of monetary instruments such as money orders or drafts). A successful placement typically involves a good alternate explanation of the source of the cash deposit and/or a method to split large amounts into smaller deposits.

(c) Layering

This is the second stage that follows after the illegal funds have been successfully introduced into the financial system. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source[23]. This is the stage most vulnerable to the life insurance companies, as most life insurance companies do not receive payment by and accept cash as a form of premium payment. For the illegal funds to be successfully laundered in the life industry, the launderer might simply make deposits at any financial institution and wire the funds through a series of accounts at various banks across the globe, to the life insurance company for premium payment or

[23] The Financial action Task Force (FATF): http://www.oecd.org/document/29/0,3343,fr_32250379_32235720_33659613_1_1_1_1,00.html

purchase of an annuity or life insurance product. Thus, creating a complex layer of financial transactions to mask the true origin of funds. Successful layering typically involves the anonymity of the originator for each of the transfers, structuring payments through secrecy jurisdictions or through anonymously held corporations.

(d) Integration

This is the third stage of the money laundering process and entails placing the laundered proceeds back into the economy to create the perception of legitimacy[24]. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures[25]. In the case of insurance, money launderers can purchase an annuity product by way of a cheque or an electronic funds transfer. They are known to take advantage of the 10 day free look period (a period where you can pull out of the contract and obtain a refund based on contract terms) and obtain a refund. This way they get a cheque from a reputable company, the fund is successfully laundered and is extremely difficult at this stage to distinguish between legal and illegal funds. Like placement, successful integration depends on an alternate and apparently legitimate explanation for the source of funds e.g. lottery winnings.

[24] Association of Certified Anti-Money Laundering Specialists (ACAMS) June 2004 Preparation guide for the certification Examination

[25] The Financial action Task Force (FATF): http://www.oecd.org/document/29/0,3343,fr_32250379_32235720_33659613_1_1_1_1,00.html

(e) Repatriation

The final stage of the process involves repatriating the laundered funds into the hands of the criminal entrepreneur, ideally with a legitimate explanation as to their source, so that they can be used without attracting suspicion[26].

4 The Insurance Sector

The exposure of any industry to money laundering depends on its structure, the regulation to which it is subjected, the products it offers, the geography in which it operates and its customers.

4.1 Structure

In Canada, insurance companies are categorized as either life and health, or property and Casualty. According to Canada's Department of Finance, Canada's life and health insurance industry comprises of some 117 firms, down from 168 companies operating in the sector in 1990. In 2006, Canada's life and health insurance companies had total domestic assets of $347 billion, ranking third among the country's financial industries, behind banks ($2,389 billion) and the mutual fund sector ($660 billion). The insurance industry is stable, profitable, and well-capitalized. The life and health (L&H)

[26] Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004

insurance sector is dominated by three large domestic groups (accounting for 84 percent of the assets at the end of 2006)[27].

4.2 Regulation and Supervision

Regulation of Canada's life and health insurance industry is shared between the federal and provincial governments. The federal government, through the Office of the Superintendent of Financial Institutions, supervises the federally incorporated firms (including foreign firms), which account for over 90 per cent of the total sector's premium income[28]. OSFI has concluded that money laundering is a serious problem that can pose a number of risks to financial institutions. The failure of a financial institution to implement adequate anti-money laundering policies and procedures result in undetected money laundering activities which can eventually have a negative impact on its reputation and, consequently, on its ability to carry on business. Additionally, financial institutions that fail to implement adequate measures in relation to the prevention of money laundering and the reporting of terrorist financing activities are exposed to potentially serious regulatory intervention initiatives, both domestically and internationally[29].

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[27] International Monetary Fund, IMF Country Report No. 08/59. Canada. January 15, 2008. *Financial System Stability Assessment Update*; Prepared by the Monetary and Capital Markets Department Approved by Jaime Caruana and Anoop Singh

[28]Department of Finance: http://www.fin.gc.ca/toce/2001/health_e.html

[29] Office of the Superintendent of Financial Institutions Canada (OSFI) Guideline B8, April 2003, *Sound Business and Financial Practices - Deterring and Detecting Money Laundering and Terrorist Financing*. http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/sound/guidelines/B8_e.pdf

4.3 The PCMLATFA&R and the Insurance Industry

To combat money laundering and in response to international pressure, the Canadian Parliament enacted the Proceeds of Crime (Money Laundering) Act which received Royal Assent on June 29, 2000. The Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) was created to assist in the detection and deterrence of money laundering and the financing of terrorist activities and to facilitate the investigation or prosecution of money laundering and terrorist financing offences Act[30]. The initiative was also responsible for the creation of the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), Canada's Financial Intelligence Unit in 2001. FINTRAC is Canada's financial intelligence unit, a specialized agency created to collect, analyze and disclose financial information and intelligence on suspected money laundering and terrorist activities financing. FINTRAC has been provided with extensive powers and responsibilities and has a high level of operational independence[31].

In Canada, certain entities that undertake financial activities are currently covered by the anti-money laundering (AML) regime. Life insurance companies are currently subject to Canada's AML regime and have been since November 8, 2001. Insurance companies have had to report transactions if there are "*reasonable grounds to suspect that the transactions are related to the commission of a money laundering offence*". Since June 12, 2002, they also have to report transactions if there are "*reasonable grounds to suspect that the transactions are related to the commission of a terrorist activity*

[30] The Financial Action Task Force Third Mutual Evaluation on Anti-Money Laundering And The Combating of The Financing of Terrorism, Canada, February 29, 2008

[31] Summary of the Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, Canada, February 29, 2008, available at http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf.

financing offence” to FINTRAC. Once a determination has been made that a transaction is related to the commission or attempted commission of a money laundering offence or a terrorist activity financing offence, a suspicious transaction report (STR) must be sent to FINTRAC within 30 days. After the STR reports are submitted to FINTRAC, they analyze and disclose the financial information and intelligence on the suspected money laundering case to law enforcement and CSIS to assist in the prosecution of money laundering offences.

According to FINTRAC’s annual report, in 2005, FINTRAC made 142 case disclosures to the RCMP which represented a value of about 2 billion dollars. Additionally, in 2006, 168 case disclosures were made to the RCMP with a value of about 5 billion dollars. Finally, in 2007, 193 case disclosures were made to the RCMP which represented a value of $9.8 billion, which was almost double that of 2006, which in turn was nearly double that of 2005. The table below summarizes the number of disclosures by total value.

Number of Disclosures by Total Value

	2002-03	2003-04	2004-05	2005-06	2006-07
0 - $1M	59	123	66	78	69
$1M - $10M	38	61	44	61	69
$10M - $50M	3	10	22	12	32
$50M - $100M	3	2	6	9	7
$100M - $500M	0	1	4	5	11
$500M - $1B	0	0	0	3	2
$1B +	0	0	0	0	3
Total Number of Disclosures	**103**	**197**	**142**	**168**	**193**

Source: FINTRAC Annual Report 2007

Failure to comply with legislative requirements such as reporting a suspicious transaction could lead to criminal penalties that if convicted, could lead to up to five years imprisonment, to a fine of $2,000,000, or both. It is also important to note that in addition to these administrative penalties there could be direct and indirect costs associated with non-compliance such as reputational, legal and financial risks.

5 Benefits of reporting

STRs account for less than 0.25% of all reports that FINTRAC receives, yet they represent 60% of all of the reports that are disclosed to law enforcement and security agencies for investigation and possible prosecution. According to FINTRAC, STR's assist the agency in identifying patterns of suspected financial transactions and can support identifying links and connections among individuals, entities and accounts that may otherwise not have been known. Additionally, the information submitted in an STR makes an important contribution to FINTRAC's ability to isolate activity pointing to possible money laundering or terrorist activity financing[32]. According to the recently published FATF third mutual evaluation report on Anti-Money Laundering and the Combating of the Financing of Terrorism in Canada, feedback provided by some of the organizations that receive FINTRAC disclosures indicated that although the disclosures positively contribute to existing law enforcement investigations they rarely generated new ones. This raises serious concerns with respect to the capability of FINTRAC to generate new money laundering cases independent from existing investigations[33].

[32] The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC); Section 2.1 The value of an STR available at http://www.fintrac.gc.ca/publications/FOR/2007-04-04/bsf-eng.asp#111

[33] Summary of the Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, Canada, February 29, 2008, available at http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf.

5.1 Do STR's contribute to the reduction of money laundering in Canada?

In order to provide evidence of the effectiveness of Canada's AML Regime or whether STR volumes make a difference in the reduction of money laundering in Canada, it is important to explore performance indicators (an approach suggested by the FATF in 2001) such as:

(a) the volume of STR's and the number of prosecutions and convictions relating to money laundering offence[34].

(b) the number of case disclosures to law enforcement

Assumption

- Convictions arise as a result of the STR reporting system and a positive correlation between the volume of STR reported and money laundering convictions would mean that STR's contributed to money laundering convictions.
- An increase in the number of case disclosures to law enforcement which feed into existing investigations and prosecutions for money laundering would mean that STR's contributed to money laundering convictions

(a) In Canada, money laundering offence can be found under section 462.31 of the Criminal Code (CC) which covers predicate crimes.

Section 462.31 of the Canadian Criminal Code includes:

> **462.31** (1) Every one commits an offence who uses, transfers the possession of, sends or delivers to any person or place, transports, transmits, alters, disposes of or

[34] Dr Jackie Harvey, Newcastle Business School, June 2008 "*Money Laundering Scale and prevention: facts and myths*" Money laundering bulletin I-Law.com Issue 154

otherwise deals with, in any manner and by any means, any property or any proceeds of any property with intent to conceal or convert that property or those proceeds, knowing or believing that all or a part of that property or of those proceeds was obtained or derived directly or indirectly as a result of

(*a*) the commission in Canada of a designated offence; or

(*b*) an act or omission anywhere that, if it had occurred in Canada, would have constituted a designated offence[35].

Table 1.1 below shows the total convictions based on charges laid pursuant to S.462 (31) of the Criminal Code compared to the total number of STR's reported from all sectors over the period from 2003 to 2006.

Table 1.1[36]

	2003-2004	**2004-2005**	**2005-2006**	**Total**
Total STR's (all sectors)	14,794	19,113	29,367	63,274
Total charges laid down pursuant to S.462(31) (predicate crimes)	220	292	211	723
Committed for trial (ongoing case) pursuant to 462(31) CC	8	6	3	17
Guilty pursuant to S.462(31) CC (**Convictions**)	5	6	10	21

Table 1.1 shows the following:

- There is a positive correlation between the number of S.462(31) convictions and the total STR reported from 2003 to 2006. As the STR volume increases, the number of S.462(31) convictions also increases.

35 Section 462.31 of the Canadian Criminal Code

36 Data from the Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, Canada, February 29, 2008, available at http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf

(b) FINTRAC receives voluntary information about cases being investigated by law enforcement agencies concerning suspicions of money laundering. According to FINTRAC's 2006-2007 annual report, a total of 193 cases were disclosed to law enforcement with a total dollar value of $9.8million. This amount was nearly double the value of the previous year[37]. FINTRAC disclosures are largely based on the voluntary information reports made by law enforcement authorities (80% of cases)[38]. 65% of these case disclosures were supported by the financial information contained in the suspicious transactions reports (STR's) submitted by reporting entities. This shows that suspicious transaction reports contributed to disclosures to law enforcement, which feed into investigations and prosecutions that were either already underway or in an increasing number of instances, they identified completely new cases of suspected money laundering.

Table 1.2 below shows the total number and value of disclosures to law enforcement compared the total number of STR's reported from all sectors over the period from 2003 to 2006.

Table 1.2[39]

	2003-2004	**2004-2005**	**2005-2006**	**Total**
Total STR's (all sectors)	14,794	19,113	29,367	63,274
Number of FINTRAC disclosures	197	142	168	193
Total Value of disclosures	$700 M	$2B	$5B	$9.8B

[37] The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), 2007 Annual Report available at: http://www.fintrac-canafe.gc.ca/publications/ar/2007/41-eng.asp
[38] Summary of the Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, Canada, February 29, 2008, available at http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf.
[39] Data from the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), 2007 Annual Report available at: http://www.fintrac-canafe.gc.ca/publications/ar/2007/41-eng.asp

Table 1.2 shows the following:

- There is a positive correlation between the number and value of disclosures to law enforcement and the total STR reported from 2003 to 2006.

Based on the information above, we can draw conclusions that there is some association between STR volumes and the number of S.462(31) convictions as well as the volume and value of disclosures to law enforcement.

All reporting entities including the life insurance industry has an important role to play in detecting and combating money laundering. It is important for the industry to fully understand how their products and business can be susceptible to money laundering. A good understanding of the money laundering vulnerabilities can lead to the implementation of tighter controls and a timely identification and reporting of suspicious transaction.

6 How insurance companies are susceptible to money laundering

The money laundering methods used in Canada have remained relatively consistent in recent years[40]. Dr. Stephen Schneider conducted an analysis of the successful money laundering cases closed by the RCMP between 1993 and 1998. He found that in the course of a single money laundering operation, a number of different sectors will often be used. Next to banks or deposit institutions, the insurance sector was implicated in 96 cases (64%)[41]. The table below by Dr. Stephen Schneider, shows the breakdown of how the various economic sectors are used for money laundering in Canada.

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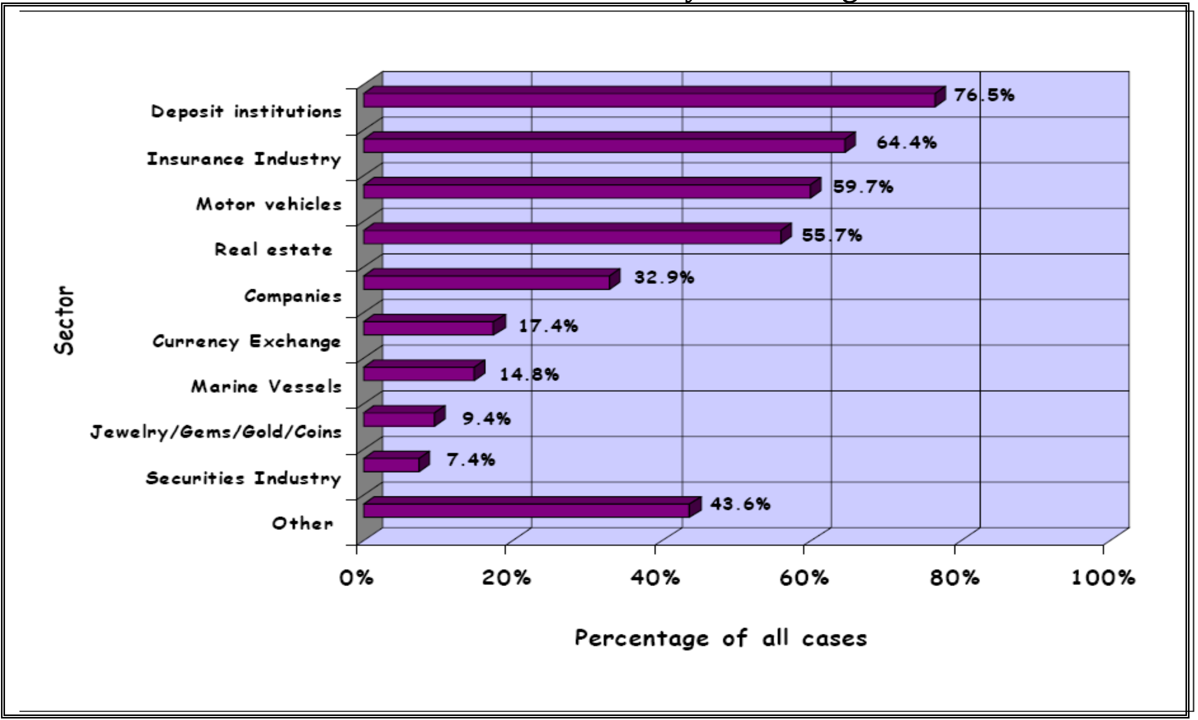
[40] The Financial Action Task Force Third Mutual Evaluation on Anti-Money Laundering And The Combating of The Financing of Terrorism, Canada, February 29, 2008

[41] Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004

Economic sectors and other assets used for money laundering in Canada



These statistics were derived from cases in a period when there was no mandatory reporting of suspicious transactions for any financial sector. Subsequent studies might reveal an even greater trend towards the use of insurance companies as they may be perceived to be relatively less attentive to money laundering issues.

The insurance industry is generally susceptible to money laundering because of their size, complexity of the products they offer and the manner in which their products are segmented and distributed.

6.1 Size

Money launderers enjoy doing business with companies with a large customer base, increasing the potential for them to hide the real purpose behind their insurance purchases and avoid scrutiny. Canadian-based companies provide insurance coverage to over 55% of the total population, providing launderers a significant pool of clients amongst which they can hide their illegal transactions[42].

In 2004, about 24 million Canadians and their dependants were covered by some form of life and health insurance. The total value of life insurance owned by Canadians was over CAD2.6 trillion. In 2004, Canada's life and health insurance industry was comprised of 105 firms, the 5 largest companies (Great West Life, Manulife, Sun Life, Munich and Desjardins life) accounted for approximately 64% of the net premiums written by life insurers in Canada[43].

In 1998, Canadian life and health insurers generated $29.5 billion from foreign clients for life insurance, health insurance, and annuities. Over 10 million people in more than 20 countries outside Canada own life insurance policies with Canadian companies[44]. Canadian life insurers are increasingly global, and earn more than 50 percent of their revenue outside Canada[45].

The growth of the insurance market outside Canada has substantially increased the insurance industry's attractiveness to money laundering, as they have the ability to move funds internationally.

6.2 Products

i. Product design and access

The business of life insurance companies is no longer just confined to traditional life insurance. Life insurance now makes up a smaller proportion of products sold, while

[42] ABC Solutions INC. - http://www.moneylaundering.ca/index.php
[43] The Financial Action Task Force Third Mutual Evaluation on Anti-Money Laundering And The Combating of The Financing of Terrorism, Canada, February 29, 2008
[44] ABC Solutions INC. - http://www.moneylaundering.ca/public/law/sectorinsure.php
[45] International Monetary Fund, IMF Country Report No. 08/59. Canada. January 15, 2008. *Financial System Stability Assessment Update*; Prepared by the Monetary and Capital Markets Department Approved by Jaime Caruana and Anoop Singh

savings products such as annuities and investment products have assumed a greater prominence[46]. This trend has increased its potential to be used as money laundering conduits.

According to the 2004-2005 FATF report on money laundering typologies, several FATF members reported an increase in the appearance of insurance products in laundering schemes. The nature of the product being sold is usually the primary driver of level of risk. This is because of the very different nature of each category of products. Some product's features are defined and restricted whilst others such as single premium immediate annuities and segregated funds feature increased flexibility making them more attractive potential money laundering vehicles.

The following are features which may tend to increase the product's vulnerability to money laundering:

- accept payments or receipts from third parties;
- accept cash payments;
- investment capabilities;
- accept frequent payments (outside of a normal regular premium policy);
- provide significant flexibility as to how investments are managed;
- be liquidated quickly (via surrender or partial withdrawal)
- be used as collateral for a loan;
- can be purchased with varying sums of money in the amount and frequency chosen by the policyholder, source of funds/wealth are not traditionally questioned;

[46] Department of Finance. August 2001. *Canada's Financial Services Sector; Canada's Life and Health Insurers*: http://www.fin.gc.ca/toce/2001/health_e.html

- allows conversions to other types of higher risk products such as annuities and segregated funds
- subject to a free-look period (cancellation without penalties) of 10 days of which the company will refund the premiums received within thirty days of the request.
- builds cash values
- Single premium provision - allows for one single, lump-sum contribution by policy holder
- written in a discretionary or other increased risk trust[47].

Figure 1-1 below shows a typical laundering scheme via a life insurance company:

MONEY IN

Purchase of insurance products by way of:

- Cheque
- EFT
- Money order / draft
- Pre-authorized debit
- Lump-sum payment
- Agent account
- Payments or receipts from third parties

MONEY OUT

- Cancellations during 10-day free look period
- Liquidated quickly via surrender or partial withdrawal
- Policy loan
- receive periodic payments back from insurance company

SUCESSFUL LAUNDERING SCHEME

- **"Clean"** cheque from insurance company

The table 1-3 below further summarizes how the products typically offered by a life insurance company make them attractive to money launderers.

[47] The Joint Money Laundering Steering Group, January 2006, *Prevention of Money Laundering / Combating the Financing of Terrorism*. Guidance for the UK financial Sector Part II : Sectoral Guidance.

	Product Type	Product Description
1	**Annuities - Immediate and Deferred**	An annuity is a financial instrument that allows for a life insurance company to make a series of payments in the future to the buyer (annuitant) in exchange for an immediate payment of a known sum[48]. Annuities can be immediate or deferred. Immediate annuities are payable the first period after they are purchased which could be as short as a month. Deferred annuities are payable in more than one period after they are purchased which could be as short as 1 year or as long as 10 years. **<u>Vulnerability to Money laundering</u>** Both immediate and deferred annuities are attractive to money launderers as they can for example make a lump sum deposit by way of a cheque for the purchase of either an immediate or deferred annuity (where the source of funds may be from a predicate offence such as drug trafficking), and receive periodic payments back from the insurance company. In this case they are able to successfully launder the illegal funds by putting the "dirty" money in and taking apparently "clean" money out in the form of a cheque from an insurance company. **<u>Case</u>** A fraudulently bankrupt subject used an account in the name of a family member to pay in illegally obtained cash and withdraw it out via a cheque to a lawyer. The lawyer then gave some money back in a cheque to the family member while the rest went to the purchase of an immediate annuity. After a series of periodic

[48] http://en.wikipedia.org/wiki/Life_annuity

	Product Type	Product Description
		payments, the annuity was later surrendered. The surrender value was paid out to the family member's account. **Source: FATF -** Money Laundering & Terrorist Financing Typologies 2004-2005
2	**Segregated Funds**	A segregated fund is a pooled investment fund, much like a mutual fund, that is established by an insurance company and segregated from the general capital of the company[49]. Segregated funds may represent stand alone investments or combine the investment capabilities with the features of an insurance contract. **<u>Vulnerability to Money laundering</u>** 1. **Deposit** – Segregated funds offered by some life insurance companies may need a minimum but not a maximum amount, in order to establish an insurance contract. This is attractive to money launderers as it allows them to launder large amounts of money at any given time, without potentially arousing suspicion. 2. **Withdrawals and Cancellations –** Segregated funds typically allow cancellations and some may allow unlimited number of withdrawals during the life of the contract. In exchange, the insurance company may charge either a redemption fee or penalty for withdrawals. To a money launderer, the penalties associated with the transaction can be construed as the cost of doing business.
3	**Universal Life – Permanent, Whole and**	Universal life insurance combines the protection of life insurance with the benefits of tax-advantaged

[49] Department of Finance - Canada's Financial Services Sector - Canada's Life and Health Insurers 2001; http://www.fin.gc.ca/toce/2001/health_e.html

	Product Type	Product Description
	Variable Life	investing[50]. You pay premiums and receive insurance coverage for a specified period of time or throughout the lifetime of the insured. It also provides a death benefit when the insured dies. **<u>Vulnerability to Money laundering</u>** 1. **Shuttle fund / Side Accounts –** Some UL policies have an "accumulation fund" in which all amounts paid by the policy holder are accumulated, up to the maximum allowed by law to maintain the policy's tax exempt status. The shuttle fund receives any excess amounts necessary to maintain the policy's tax-exempt status. Traditionally there are no ceilings on amounts that can be deposited into the shuttle fund and the account activity is not usually monitored. Money launders' can take advantage of this feature by making lump sum deposits into the shuttle fund and obtain a cheque back from the insurance company by doing the following : a. **Withdrawals –** withdrawals at anytime from the accumulation or shuttle fund with no concern for penalties or fees b. **Policy loans –** obtain a policy loan against the policy's accumulated net cash value in the

[50] Manulife Financial - http://www.manulife.ca/Canada/ilc2.nsf/Public/ulinsurance

	Product Type	Product Description
		accumulation or shuttle fund with quick repayments c. **Surrenders –** surrender the policy for the net cash surrender value or the market value of the accumulation or shuttle fund less any surrender charges 2. **Replacements –** money launderers may decide to buy a term life policy which is relatively lower risk and subject to less scrutiny and decide to replace that policy at a later date with another higher risk policy that has either investment capabilities or builds cash value. The accumulated funds are later withdrawn with low fees or penalties administered. **<u>Case 1</u>** Local police authorities were investigating the placement of cash by a drug trafficker. The funds were deposited into several bank accounts and then transferred to an account in another jurisdiction. The drug trafficker then entered into a USD 75,000 life insurance policy. Payment for the policy was made by two separate wire transfers from the overseas accounts. It was purported that the funds used for payment were the proceeds of overseas investments. At the time of the drug trafficker's arrest, the insurer had received instructions for the early surrender of the policy. **Source:** IAIS Guidance paper on anti money laundering and combating the financing of terrorism (October 2004); Examples of money laundering and suspicious transactions involving insurance **<u>Case 2</u>** Federal law enforcement agencies discovered Colombian drug cartels were using drug proceeds to buy life insurance policies, which were subsequently liquidated with the cash value transferred to an offshore

	Product Type	Product Description
		jurisdiction. The cash surrender value of a life insurance policy is often much less than the amount invested because of liquidation penalties, particularly if the policy has only been in existence for a few years. But from the drug traffickers' perspective, the liquidation penalty is, in effect, a cost of doing business. **Source**: Adapted from the US Money Laundering Threat Assessment Working Group; December 2005
4	**Mortgages**	In order to gain additional market share, life insurance companies offer additional financial services typically offered by banks such as mortgage credit which are favorable to money launderers. More often, criminals seem to be using mortgages as a means to launder the proceeds of criminal activity. For example, the launderer can make deposits, down payments and monthly payments for the mortgage entirely from funds obtained illegally, quickly sell it, thereby concealing the illicit origin of the funds and claiming a legitimate source of revenue. Dr. Stephen Schneider's research on the analysis of the successful money laundering cases closed by the RCMP between 1993 and 1998 found that: ▪ Money launderers used mortgages and loan products with criminal proceeds in 35% and 18.4% of the cases analyzed ▪ In 72% of cases analyzed, money launderers purchased single family residential property. Of those instances where money launderers purchased property, they placed criminal proceeds into the real estate

	Product Type	Product Description
		sector through mortgages and loans 85% of the time[51]. **<u>Case</u>** 1. A drug trafficker used drug trafficking proceeds to purchase a property of which part was paid in cash and the remainder was obtained through a mortgage. He then sold the property to a shell corporation, which he controlled, for a nominal sum. The corporation then sold the property to an innocent third party for the original purchase price. By this means the drug trafficker concealed his proceeds of crime in a shell corporation, and thereby attempted to disguise the origin of the original purchase funds. **Source:** 1997-1998 FATF Report on Money Laundering Typologies 2. A drug trafficker purchased a home in the Ottawa region with $17,000 in cash and a $62,000 mortgage. Both the title to the property and the mortgage were registered in his name. 3. Revenue from illegal drug sales in Alberta was deposited into a bank account and cheques were drawn against the account to finance the purchase of a home. A mortgage was obtained from the same bank and payments were made against this mortgage from the account. **Source**: Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004

[51] Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004

ii. Geography

Life insurance companies may operate in certain high risk geographic regions both domestically and internationally, that increase their vulnerability to be used as conduits for money laundering. For example, larger entities may have foreign subsidiaries and branches outside Canada in countries and jurisdictions that are well known for their high crime rates, corruption and money laundering. Additionally, they may deal with countries or territories that have not yet established adequate anti-money laundering regimes consistent with international standards. Finally, their clientele may not only be limited to just Canadian residents, it may include clients that reside outside of Canada in various high risk jurisdictions. Opening accounts and accepting premium payments from clients that reside in high risk jurisdictions, increases their propensity to be used to launder the proceeds of criminal activity.

iii. Customer inherent risk

Life insurance companies may deal with certain customers that may pose higher risk for money laundering. For example, the client may be a politically exposed foreign person[52] (PEFP). Experience has shown that, as a group, PEFPs are potentially more susceptible to financial crime than many other clients of financial institutions because their access to state funds and increased vulnerability to corruption. There have been many high profile cases where corrupt heads of state and other public officials have looted state treasuries and hidden the proceeds in foreign banks. Another example of a higher risk client may

[52] A politically exposed foreign person is an individual who holds or has ever held one of the following offices or positions in or on behalf of a foreign country a head of state, member of the executive council of government or member of legislature, a deputy minister etc (FINTRAC Guideline 6) http://www.fintrac-canafe.gc.ca/publications/guide/Guide6/6A-eng.asp#77

include corporate clients that deal in cash intensive businesses such as bars, night clubs and white label machine operations. Sales generated from these types of businesses are generally in cash and it is often difficult to match the cost of providing food, liquor and entertainment with revenues they produce. As a result they are frequently used as fronts for money laundering operations[53]. The commingled funds (legitimate and illegitimate funds) may be used to purchase insurance policies.

6.3 Distribution Channels

Individual insurance products are distributed by full-time career agents, who tend to represent a single company, or by independent agents who sell the products of any insurer. Both career and independent agents are paid sales commissions to cover their expenses, although career agents usually receive additional payments such as pension benefits and access to employer-paid training. While the majority of individual insurance products are sold through career or independent agents, other distribution channels include telephone and mail solicitation as well as sales over the Internet[54]. Money launderers exploit the fact that insurance products are often sold by independent brokers and agents who do not work directly for the insurance companies. These intermediaries may have little know-how or incentive to screen clients or question payment methods. In some cases, agents take advantage of their intermediary status to collude with criminals against insurers to perpetrate fraud or facilitate money laundering. Dr. Stephen Schneider's research showed that life insurance agents had been used unwittingly in 59.1% of the cases analyzed to facilitate the money laundering process.

[53] 2005 Association of Certified Fraud Examiners (ACFE) – Fraud Examiners Manual
[54] Canada's Financial Services Sector; Canada's Life and Health Insurers, Updated Version (August 2001) : http://www.fin.gc.ca/toce/2001/health_e.html

A case of money laundering: Eagle Star Life

A major ICE investigation into Eagle Star Life, based in the Isle of Man, with an office in Miami, was identified through information received in a narcotics smuggling investigation as issuing policies paid for with drug proceeds. The suspicious policies were established from 1995 through 2003 by one "master broker" who operated in Colombia and other South American countries. The policies were funded in several ways. In many instances, a large wire transfer was sent to the insurer on instructions from the broker. Once received, the broker would direct the allocation of funds to various policies. Eagle Star also received payments via third-party checks and structured money orders. Most alarming is evidence that some policies were paid for with funds from brokers' commission accounts. In this scenario, the brokers accepted cash from the client in Colombia and credited the client's policy with funds from the brokers' business operating account or from commission checks.

Source: Adapted from the US Money Laundering Threat Assessment Working Group; December 2005

Case 2

In 1995, an insurance broker in Alberta accepted large amounts of cash from known criminals, which were then invested under his own name. He would issue his clients a life insurance policy document, which could be redeemed whenever they wanted, for a fee. In one instance, the broker took $30,000 in ($100 bills) that were purportedly generated from local cocaine sales. The insurance broker then filled out a "Whole Life Policy" with a specified cash surrender value of $25,000 plus interest. The broker stated that he could put the policy in any name and would even hide its existence if need be. He then offered to funnel the cash through the bank account of another company he operated so as not to attract suspicion.

Source: Adapted from Money Laundering in Canada: An Analysis of RCMP Cases by Stephen Schneider, Ph.D. Research Associate Nathanson Centre for the Study of Organized Crime and Corruption York University Toronto, Canada, March, 2004

7 Analysis and Commentary on Questionnaire Responses

7.1 Scope

- While research on the subject suggests that life insurance companies are subject to high money laundering risk we canvassed a number of industry experts to expand on these findings.
- The scope of interviews conducted was limited to obtaining feedback from regulators, industry experts and representatives from the insurance sector on reasons for the low suspicious transaction reporting levels within the sector.

7.2 Limitations

- A total of 10 questionnaires were sent out to individuals from the Integrated Proceeds of Crime Unit (IPOC) of the RCMP, provincial regulators, representatives from the insurance companies (insurance executives) and finally, industry experts (consultants responsible for conducting anti-money laundering review engagements), however only five individuals responded to the survey questionnaires. Our summaries were drawn from the views expressed by these individuals, and were sufficient in quantity and depth to arrive at reliable conclusions.

7.3 Methodology

- An interview questionnaire was developed which included a mix of open-ended and closed-ended questions. A copy of which is attached to this report (as Appendix "A").
- All interviews were conducted on a confidential basis. All quotes contained in this report were taken directly from the interviews conducted; however the specific individual from whom the quote is taken will not be identified. Additionally, in order

to maintain strict confidentiality of the respondents, the actual questionnaires completed will not be appended to this report.

- A letter of introduction was prepared in conjunction with the consent form for the research project interview and was supplied to each individual that was interviewed. This letter of introduction along with the consent form is attached to this report (as Appendix "B"). An analysis of the Interview Survey Questions has also been appended to this report (as Appendix "C").

7.4 Summary of questionnaire responses / findings

The results of our interviews are summarized below:

1. 60% of respondents believed that the problem of money laundering in the insurance sector is on the increase. When asked their opinion on the extent of money laundering in Canada,

An RCMP officer in the IPOC unit stated that:

> *"Over time experts in the field have provided higher estimates of the extent of money laundering in the world, including Canada. I believe it is impossible to estimate but knowing the nature of criminals and knowing that they are continually adapting to and ahead of our legislative environment, I'm of the opinion that ML is of the increase".*

A consultant in a management consulting firm stated that:

> *"I believe that it is increasing but at a relative state compared to the economy. In other words, although the total dollar value of money laundering may be increasing, the amount of dollars being moved through the economy has remained relatively stable"*

2. When asked their opinion on why there is a low detection of money laundering within the insurance industry in comparison to the size of the industry and in comparison to other parts of the financial services industry, the interview responses are summarized below:

(a) Money laundering Examples and Typologies / Training

40% of Respondents believed that there is a low perception of risk for money laundering within the life insurance industry because the industry needed more resources and training, especially typologies or examples on how their business or organization can be used as a conduit for money laundering.

An executive in the life insurance industry stated that:

> "*I think that the problem is that most people perceive the risk of money laundering in the industry as low. Most money laundering situations happens primarily in the banks. If I were a money launderer the first place I would think to launder my drug proceeds would be a bank or better still at a casino - not a life insurance company. In addition, if FINTRAC provides us with real cases from*

Canada showing us what to look for, then we will be better able to recognize a case of money laundering when we see it…..”

A consultant in a management consulting firm stated that:

> *“I’m not sure but I would expect because of ignorance of how they can and likely are being used or perhaps arrogance that they cannot be used as a vehicle for money laundering. In either situation, there is a risk because those that don’t believe that it happens, for whatever reason, are the ones that are most at risk because their guard is down. They need to be trained in order to recognize how the industry is exposed to money laundering risks..”*

(b) Resources

In situations where the perception of risk was in existence, the resources needed to put systems and processes in place in the identification, investigation, monitoring and reporting of STR’s are often not allocated.

A consultant in an accounting firm stated:

> “*Compliance is generally seen as a cost center, whether at a bank or a life insurance company. This mindset reflects their priorities in relation to compliance with AML standards. They do not want to put the necessary systems in place to aid with their compliance with the legislation. I am happy that the new Bill C-25 is revising and strengthening the administrative penalties that way those institutions who have not been reporting will be forced to do something…..*”

(c) Lack of support from senior management / tone from the top

20% of respondents believed that most senior levels of management including their boards of directors do not take an active interest in AML compliance. They do not understand the inherent risks relating to money laundering in their products and what type of controls they have.

A consultant in a management accounting firm stated:

> *"The oversight and leadership from the top with regards to ML is not there within some companies. ML is not about compliance but about the culture and the mindset of the people within the organization. If the buy-in is not there as to the level of risks within the organization, then effective controls will not be implemented in order to mitigate the risks. But things are changing now. The board, senior management etc are becoming more engaged…which could trigger an increase in STR reporting"…*

(d) Non-acceptance of cash

20% of respondents attributed the low suspicious transaction reporting levels to the non-acceptance of cash by the insurance industry.

An RCMP officer in the IPOC unit stated that:

> *"It may not be low detection but lower occurrence. Because they don't take cash, generally, it may not be a desired sector to launder funds. They may have also done a better job of implementing an AML strategy as opposed to banks. It helps when you don't normally take cash as that eliminates 80% of the risk."*

(e) Lack of automated solutions for AML detection

20% of respondents believed that the low suspicious transaction reporting levels can be attributed to the fact that the insurance industry unlike banks, have not yet implemented automated solutions or software systems for AML detection. They rely on manuals processes in conjunction with system extracts to detect suspicious transactions.

An executive in the life insurance industry stated that:

> "*STR reporting within the life insurance industry is evolving in the sense that we are continuously trying to improve processes and implement new AML detection systems at the base level. We are not there yet, compared to the banks and other financial institutions, however we are on the continuum to get the calibration right in the identification and deterrence of money laundering*"

A consultant in a management accounting firm stated that:

> "*Right now the industry relies heavily on manual processes for STR identification. Money laundering schemes are increasing becoming more complex. Unusual transactions may not be effectively detected by relying on manual processes alone...*"

3. When asked whether the insurance sector, like other financial services sectors is exposed to the threat of money laundering, 100% respondents believed that the life insurance industry exposed to the threat of money laundering however not in the same extent as banks or other areas within the financial services sector.

An RCMP officer in the IPOC unit stated that:

> *"It is exposed to the threat of ML but I believe it is less than other participants in the financial services sector. They generally don't take cask which is a big risk area in the ML cycle. This eliminates a lot of the risk as the cash taking institutions are required to do the due diligence prior to the wealth being invested in insurance products"*

A consultant in a management consulting firm stated that:

> *"Yes but to the same extent that any financial institution may be in terms of exposure. In terms of risk and where those risks are, however, they will be different for the insurance industry. Anytime that cash and/or proceeds of crime can be used to purchase some kind of financial instrument, then the proceeds can be easily laundered by changing the form from one associated with proceeds of crime to one with apparent legitimacy"*.

4. 20% of respondents believed that the current legislation under which the life insurance sector is required to report suspicious transactions were ineffective.

A consultant in a management consulting firm stated:

> *"I believe the MER report on Canada in 1997 indicated that the suspicious transaction reporting regime was not working effectively, and there needed to be a review of the internal process. Since then, Canada has strengthened its overall AML regime and like any other law, in order to determine it's effectiveness we need to give it time. I know that there are concerns about the regime's effectiveness in*

disclosing new money laundering and terrorist financing cases to law enforcement authorities. So if this is a measure of effectiveness then the current legislation may be ineffective".

5. When asked what the role of an IFA is in assessing the effectiveness of suspicious transaction reporting system at a life insurance company, 100% of respondents believed that their role was to help implement AML systems, conduct compliance audits and training.

An RCMP officer stated:

> *"The role of the IFA is to help implement effective AML systems and identify weaknesses as criminals are always adapting, improving AML systems, identifying trends in ML and adjusting systems to detect this criminal activity, educating the players in the system as to trends, ML techniques and best practices*".

8 IFA Skills and Attributes

"The abilities and skills of IFA's suit them well for the war against money laundering. The development of internal policies, procedures, and controls to prevent money laundering fits within the accountant's abilities and expertise. Forensic accounting skills are needed to help in combating this crime"[55].

Investigative Forensic Accountants possess the following professional skills and attributes that can assist life insurance companies not only in conducting compliance review engagements but most importantly assist with the identification, investigation and reporting of suspicious transactions to ensure compliance with the Proceeds of Crime Money Laundering and Terrorist Financing Act.

They possess fraud knowledge which provides them with exposure to and knowledge of different types of transactions. This knowledge allows them to effectively identify "red flags" relating to money laundering transactions and piece together patterns and theories that may otherwise elude a person who has not had the same degree of exposure[56].

Secondly, they posses professional training in accounting which not only direct technical knowledge but also provide a practical understanding of the life insurance industry in general, their business operations, structure and industry practices which allows them better understand the industry's vulnerability to be used as a conduit for money laundering.

[55] Elizabeth V. Mulig and Murphy Smith, *Understanding and Preventing Money Laundering***,** Internal Auditing, Vol. 19, No. 5, pp. 22-25, September-October 2004
[56] The Canadian Institute of Chattered Accountants, 1995, *An Introduction to IFA Practice Issues*: Practice Aid 95-01

Thirdly, IFA practitioners have an investigative mentality. The ability to identify and analyze data quantitatively and qualitatively in order to determine what occurred in a business transaction. This skill allows them to assess relevant transactions or events in order to determine the reasonableness of any transaction and whether they are suspicious for money laundering.

Finally, their knowledge of law and rules of evidence enables them to interpret the Proceeds of Crime Money Laundering and Terrorist Financing Act and Regulations legislative requirements and their applicability in conducting money laundering investigations in the life insurance industry[57].

8.1 The Role of an IFA

The role of an Investigative Forensic Accountant (IFA) in assessing the effectiveness of the policies, procedures and processes for the monitoring, detecting and reporting of suspicious transactions in a life insurance company can be categorized into three prevention, detection and reporting.

8.2 Prevention

(a) Tone from the top

In order to successfully implement policies, procedures and systems to prevent money laundering, there has to be a "buy in" from the top. The board and senior management must be sufficiently committed and foused on AML as an issue within their organization. They should be "setting the tone from the top". Setting the tone from the top includes

[57] The Canadian Institute of Chattered Accountants, 1995, *An Introduction to IFA Practice Issues*: Practice Aid 95-01

putting in place appropriate corporate governance mechanisms[58] to ensure effective management of AML risk along with the allocation of resources to ensure that these mechanisms are appropriately implemented. The IFA can assist in conducting board and senior management training to ensure that they are fully engaged and understand the inherent risks and controls relating to money laundering within their organization.

(b) Risk assessment and risk-mitigation

The IFA may be engaged to conduct a risk analysis on the organization to determine where the money laundering risks are the greatest. Proportionate risk mitigation procedures may then be designed based on assessed risk. Higher risk areas should be subject to enhanced due diligence, for the life insurance industry, this would include measures such as enhanced customer due diligence checks and enhanced transaction monitoring. It also follows that in instances where risks are low, simplified or reduced controls may be applied.

In 2007, the Minister of Finance announced that Canada will be strengthening and amending the regulations to Combat Money Laundering and Terrorist Financing. The regulatory amendments implement new provisions of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, which were introduced by Bill C-25. Bill C-25 requires all reporting entities such as Life insurance companies to enhance their compliance regime to include an assessment and documentation of risks related to money laundering and terrorist financing.

The risk assessment can be performed by the IFA considering the following: the target market and clients of the Life company, the products and services they offer

[58] KPMG. *Global Anti-Money Laundering Survey 2007: how banks are facing up to the challenge.* http://www.kpmg.com/NR/rdonlyres/F304A73F-D65F-4D31-94AF-84271FD8BC0B/0/AML2007FULL.pdf

including delivery channels and the geographic locations where business is conducted including where the vast location of their clients are distributed.

I. Product Risk Assessment

The Canadian Life and Health Insurance Association Inc. (CLHIA) published a draft AML/ATF risk assessment by generic product categories for life and health insurers in July 2007. Below is an extract of their product risk definitions:

RISK DEFINITIONS:		
HIGH	-	Any product with investment features or features of stored value and transferability.
MODERATE	-	Any product with a restriction on accessibility or availability (must be registered, must be a group member, etc.) making the product less attractive to money launderers and terrorist financiers.
LOW	-	Products that have no investment features or no features of stored value and transferability.
Source: The Canadian Life and Health Insurance Association Inc. (CLHIA)		

Annuities and segregated funds fall into the category of a high risk product as they have investment capabilities and have no restrictions on withdrawals, thus making them more attractive to money launderers. Universal life products fall into the category of moderate to high risk because of their investment capabilities and cash savings value features. Finally, term life product falls into the category of low risk as they have no investment features or features of stored value and transferability.

II. Client Risk Assessment

Client risk assessment involves a review of the Life Co's customer base and evaluating which customers pose a higher risk for money laundering. For example, domestic vs. international clients; corporate clients who deal in cash intensive business vs. individual clients (as described in section 6.2 above of this report), clients who list unacceptably vague occupation such as "manager," “tradesman” or "self-employed” where the source of funds for the premium payment cannot be corroborated or those who have a history of involvement with criminal activities and finally clients who deal in luxury or high-end consumer goods are all examples of higher risk clients.

III. Geography Risk Assessment

An understanding of the jurisdiction where the life Co conducts business is imperative in determining whether they are higher risk for money laundering. If the company has international operations and deals with clients outside of Canada, an understanding of whether the country is considered to be a source, destination or a layering country for either drugs or one of the other predicate offences or money laundering is important[59]. For example, Columbia is a source country for drugs and Nigeria is a source country for corruption, both may be rated higher risk for money laundering.

While each of the three factors are individually important in conducting risk assessment, it is important to know that when they are combined, it can fundamentally change the apparent level of risk for example a customer who resides in Columbia, deals in a cash intensive business and purchases an annuity and a segregated fund may be rated higher risk than a client who resides in Alberta, Canada, currently employed at a reputable company and purchases a universal life policy.

After a risk assessment has been conducted and the higher risk areas have been identified, the IFA can then develop policies, procedures and risk mitigation controls.

[59] Association of Certified Anti-Money Laundering Specialists (ACAMS) June 2004 Preparation guide for the certification Examination

(c) Development of AML internal polices, procedures and controls

The PCMLTFA requires life Co's to have written policies and procedures to assess the risks related to money laundering and terrorist financing in the course of your activities. An IFA can assist in drafting and developing the AML policies and procedures as well as any other standards or guides that shows the company's commitment to preventing and detecting money laundering.

The policies and procedures developed by the IFA should include risk mitigation control procedures such as:

- The company's process for identifying and reporting suspicious transactions and other prescribed transactions such as international electronic funds transfers etc
- The company's client identification procedures including detailed procedures for handling exceptions
- Company's record keeping system
- Employee training requirement
- Enhanced due diligence process or process for dealing with higher risk clients
- Know your client (KYC) requirements etc.

(d) Training and identification of money laundering typologies

The IFA can be engaged to provide AML training to the entire organization from the board of directors to senior management to the functions best suited in the identification of unusual activity such as staff responsible for new business, underwriting, policy issue, account opening, deposit / payment processing and agents, to ensure that they have an understanding and comprehension of their vulnerability to money laundering and how to recognize unusual transactions. The IFA should implement training programmes that provide appropriate AML information that is:

- Tailored to the appropriate staff responsibility (e.g. Business line staff whose products are subject to ML or TF risks, Staff working in back office operations whose function may be to identify suspicious transactions, Staff working in control functions that may assess ML/TF risks, Senior management, Board etc)
- At a frequency related to the risk level of the business line involved; and
- Testing to assess knowledge commensurate with the detail of information provided[60]

Training should also include typologies, case studies and examples of money laundering commensurate with the life insurance industry.

(e) Independent testing

An IFA can also be engaged to conduct independent procedures testing of the effectiveness of the AML program / regime within the organization. The new legislation requires the review has to be done every two years. According to FINTRAC's guideline 6, the scope of the review should include the following:

1. Interviews with those handling transactions and with their supervisors to determine their knowledge of the legislative requirements and your policies and procedures. The front line staff or those handling transactions are typically the first line of defense in identifying unusual transactions and detecting weaknesses in AML controls. They should be fully aware of money laundering typologies and what constitutes an unusual transaction.

[60] Bank Secrecy Act / Anti-Money Laundering Examination Manual 2006

2. A review of the criteria and process for identifying and reporting suspicious transactions. The IFA should review the process for identifying unusual transaction. Does the life insurance company have a manual vs. automated system for detecting unusual transactions? Is the process robust? Is there a process in place for tracking and identifying trends, patterns or outliers?
3. A sampling of prescribed transactions such as large cash transactions, international electronic funds transfers followed by a review of the reporting of such transactions.
4. A test of the validity and reasonableness of any exceptions to large cash transaction reports including the required annual report to FINTRAC
5. A test of the record keeping system for compliance with the legislation.
6. A test of the client identification procedures for compliance with the legislation.
7. A review of the risk assessment.

8.3 Detection and Investigation

The IFA can assist in the detection of unusual or suspicious activity within the life insurance industry by employing the following investigative techniques:

i. Transaction Analysis and Data Analytics

Manual transaction monitoring

Manual transaction monitoring consists of a review of various reports generated by the financial institution's information technology (IT) department or management information systems (MIS) which are reviewed on a periodic basis. The life insurance company can rely on standard business reports generated by their system that provide indications of unusual activities such as cancellations during the free-look period, early redemptions/withdrawals, activity in shuttle/side accounts, policy loans, frequent changes in ownership or policy owner/insured information; etc. The Company can also run queries on its systems to solicit information such as trends, outliers and unusual patterns for example, list of policies with side account movement (in or out) greater than $25,000, list of policies that received a refund greater than $30,000 during the free look period, list of all surrenders and withdrawals greater than $50,000 etc.

Automated transaction monitoring

Depending on the nature and scale of the Company's business activities, automated AML systems may be an important component of an effective overall AML control environment. Transactional monitoring systems use profiling and/or rules-based monitoring methods. Profiling identifies unusual patterns of customer activity by applying statistical modelling techniques. These compare current patterns of activity to historical activity for that customer or peer group. Rules-based monitoring compares customer activity to fixed pre-set thresholds or patterns to determine if it is unusual[61].

If the life company has implemented an AML automated detection system, the IFA should ensure that there is a clear allocation of responsibilities for reviewing, investigating and reporting details of alerts generated by transactional monitoring systems. Those responsible for this work should have appropriate levels of skill and be subject to effective operational control and quality assurance processes[62]. Additionally, for the transactional monitoring system to be effective, the IFA should also ensure that

[61] Financial Services Authority (FSA). July 2007. Automated Anti-Money Laundering Transaction Monitoring System

[62] Financial Services Authority (FSA). July 2007. Automated Anti-Money Laundering Transaction Monitoring System

the rules and parameters written for the detection of money laundering transactions within the AML software are reviewed and tested regularly to determine whether they are generating or flagging the right alerts and not just false positives.

After the information has been obtained, it can then be analyzed to determine whether the flagged transactions are abnormal or atypical based on the stated account activity or information provided at the time the policy was initiated. Figure 1-1 illustrates an example of a flagged unusual activity:

Figure 1-1

	Date(s)	Description	Flagged Activity	Policy #
1	July 19, October 30 December 12	▪ Mr. X purchased an immediate annuity on July 19 with a lump sum deposit in the amount of CDN$150,000 and ▪ a universal life insurance policy with face value in the amount of 1 million, on October 30. ▪ The cash saving value of the life policy as at December 12 totaled CDN$170,000 ▪ December 12: liquidated both policies with a request for the cash value of the policy to be transferred to a third party in an off shore location.	▪ Surrender in the amount of $150,000 and $170,000	2008123456 2008124869

ii. Forensic audits

IFA’s can apply their accounting skills, investigative mindsets and professional scepticism in conducting proactive and reactive forensic audits. In proactive auditing, the IFA’s are looking for trends, patterns, outliers, irregularities regardless of the size as it may be the tip of the iceberg in potential money laundering situations. Sophisticated AML detection software may also be used to sift through files, flagging relationships or patterns that normally do not occur[63]. In reactive auditing, after uncovering unusual activity, the IFA can then conduct further investigation to determine whether there are reasonable grounds to suspect money laundering. If reasonable grounds exists, the IFA can then report the suspicious transactions to FINTRAC, determine the typology or methods that were used to launder the funds and finally implement and strengthen controls to prevent future occurrence.

iii. Sampling of files

The IFA can review a sample of all the unusual transactions identified and determine the following:

- Whether the adjudication process for referring unusual activity from all business lines to the personnel or department responsible for evaluating unusual activity are robust
- Whether the process for identifying and reporting suspicious transactions and other prescribed transactions such as international electronic funds transfers etc are effective
- Whether the staff fully understand how their business or industry can be used for money laundering
- Are the staff identifying and reporting the right transactions; is there a case of under reporting or over reporting, if so why?

[63] Forensic and Investigative Accounting; D.Larry Crumbley, Lester E. Heitger, G. Stevenson Smith, 2005

iv. Conducting historical transaction review or "look backs" for life insurance companies with low reporting rates.

Transaction look-backs generally require a bank or a financial institution to review historic transaction data using scenarios or parameters agreed and negotiated with their regulator, with a view to investigating and filing suspicious activity reports where necessary[64]. It involves a retroactive review and analysis of transactions within a period of time usually within six months. Look-backs can be useful, in identifying new typologies of money laundering and/or spotting suspicious behaviour spread over a longer historical time-period than would normally be looked at through current transaction monitoring procedures.

Transactional look backs are typically ordered by regulators in the United States for a variety of reasons including when the institution:

- Did not report some suspicious activity
- Filed incomplete or inadequate suspicious activity reports (SARs)
- Maintained a transaction monitoring system that inadequately detects suspicious activity
- Has a weak investigative process that improperly scrutinized and reported activity
- submitted for investigation[65]

The table below provides an example of a financial institution that was ordered to perform a transactional look back.

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[64] KPMG's Global Anti–Money Laundering Survey 2007

[65] From The Experts - Institutions faced with a "look-back" should look for the upside; Salvatore LaScala and Thomas Bock, at Daylight Forensic & Advisory LLC,New York. http://www.moneylaundering.com/ArticleDisplay.aspx?id=3371

10/18/2007 - Pan Pacific Bank, Fremont, CA		
C & D Order	Agencies: FDIC and CA Department of Financial Institutions	Assets: $70 Million (9/30/07)

Pan Pacific Bank is a state chartered insured non-member bank. The bank agreed to the issuance of an Order to Cease and Desist. The FDIC and Department ordered the bank to stop, among other practices:

(a) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;

(b) operating in violation of section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, regarding a satisfactory Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") compliance program;

(c) operating in violation of section 353.3 of the FDIC Rules and Regulations, 12 C.F.R. § 353.3, regarding procedures to identify, monitor, and report suspicious activities; and

(d) operating in violation of section 103.100(b)(2)(i) of the Rules and Regulations of the Department of the Treasury, 31 C.F.R. § 103.100(b)(2)(i), regarding the failure to conduct section 314(a) Information Sharing and Search requests within the prescribed time frames.

The order included the standard instruction to the bank to complete identified steps to bring the bank into compliance with the BSA/AML requirements. **There was also a "look-back" requirement that the bank research all high-risk account transactions since March 2007 for unfiled SARs and CTRs.**

Source: BankersOnline.com: BSA/AML Monetary Penalties List
http://www.bankersonline.com/security/bsapenaltylist.html#ubafrica2

Although transactional looks backs are not currently used as an enforcement tool in Canada, for those life insurance companies with low reporting levels, IFA's can still perform a historical review of transactions with a view of identifying, analyzing, investigating and potentially reporting unusual or suspicious transactions that should have been identified and reported but were overlooked.

8.4 Reporting

(a) Reporting standards based on FINTRAC guidelines

Life Insurance companies have an obligation to submit suspicious transaction reports to FINTRAC, once they have determined that there are reasonable grounds to suspect that the transaction is related to the commission of a money laundering offence. The report, including all required and applicable information, must be sent within 30 calendar days. This 30-day reporting time limit begins when the company first detects a fact about a transaction that constitutes reasonable grounds to suspect that it is related to the commission of a money laundering or terrorist financing offence[66].

The information generated from STR filings plays an important role in identifying potential money laundering situations and assists law enforcement in detecting and preventing the flow of illicit funds through the financial system[67]. As such, the onus is on the life company to ensure that the STR report or form submitted to FINTRAC is complete, sufficient and timely filed.

The IFA can help ensure that all STR filings within the organization are accurate and complete. They can conduct audits to determine if the STR reports sufficiently

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[66] FINTRAC Guideline: http://www.fintrac-canafe.gc.ca/publications/brochure/05-2003/2-eng.asp
[67] Financial Crimes Enforcement Network (FINCEN), Guidance on Preparing a Complete and Sufficient Suspicious Activity Report Narrative.

contain all the pertinent information required by FINTRAC to make a disclosure to law enforcement.

According to the Financial Crimes Enforcement Network (FINCEN) guidance on preparing a complete and sufficient suspicious activity report narrative, the five essential elements of information should include the following:

Who is conducting the suspicious activity?	▪ describe the suspect or suspects, including occupation, position or title within the business, and the nature of the suspect's business(es)
What instruments or mechanisms are being used to facilitate the suspect transaction(s)?	▪ describe the instruments or mechanisms that was used in the suspicious activity for example, type of insurance policy
When did the suspicious activity take place?	▪ describe the period of time over which the activity took place
Where did the suspicious activity take place?	▪ describe where the suspicious activity took place for example did it involve transfers within branches, subsidiaries in a foreign jurisdiction
Why does the filer think the activity is suspicious?	▪ describe why the activity or transaction is unusual for the customer considering the types of products and services offered by your industry and the nature and normally expected activities of similar customers.

Source: Financial Crimes Enforcement Network (FINCEN), *Guidance on Preparing a Complete and Sufficient Suspicious Activity Report Narrative*. November 2003

9 IFA standards and their applicability in conducting STR investigations

IFA standards protect the public interest by ensuring consistency to a minimum standard of practice, and prohibit offensive practices. The standards for investigative and forensic accounting engagements apply to this type of money laundering compliance review engagement. All sections of the IFA standard are equally very important and applicable to all IFA engagements; however this report will focus only on section - 400. Information Collection & Analysis Standards - and it's applicability in conducting STR investigations. Section 400.15 and .16 of the IFA standards states that:

> **RELIANCE ON THE WORK OF OTHERS**
>
> 15. **During an IFA engagement, IFA practitioners may rely on persons or firms possessing expertise relevant to the IFA engagement (collectively referred to in these IFA standards as "others").**
>
> 16. IFA practitioners should evaluate the nature and level of intended reliance on the work and/or information of others. The results of this evaluation will impact the extent to which the following factors need to be assessed:
>
> (a) their knowledge, expertise and competence relevant to the IFA engagement;
> (b) their business and professional reputation;
> (c) their objectivity and independence in relation to the IFA practitioners' requirements;
> (d) the source of their information;
> (e) the overall reasonableness of their assumptions, methodologies, findings and conclusions; and
> (f) the relevance of their work and information to the engagement objectives.
>
> **Source**: Investigative Forensic Accounting. November 2005. Standards for Investigative and Forensic Accounting Engagements

With regards to conducting STR investigations, the IFA should ensure that if they are placing reliance on the work or expertise of a third party such as an economist in the identification of trends and patterns of unusual activity or the Management Information

Systems (MIS) department in generating adhoc reports or an AML detection system in generating alerts and flagging of unusual activity, care should be taken to ensure that they fully understand the criteria and thresholds that are pre-set for monitoring account behavior and identifying unusual activity. Failure to do so will result in the generation of false positives[68] as a result, the IFA may miss the cases that they really need to look at, thus exposing the company to regulatory risk and huge administrative penalties.

[68] "False positives" – alerts generated by automated detection systems that turn out to be false alarms – Fortent - http://www.fortent.com/news/press-release-item.php?press-release=43

10 Conclusion

Research has shown that in the course of a single money laundering operation, a number of different sectors will often be used. Next to banks or deposit institutions, insurance companies are often sought after for money laundering in Canada as they offer products that are favorable to money launderers.

100 % of industry experts, life company executives and representatives from the RCMP Integrated Proceeds of Crime Unit unanimously agree that the insurance sector, like other financial services sectors is exposed to the threat of money laundering. 60% believe that the threat or extent of money laundering in Canada is increasing. 40% believe that the reason for the low STR reporting levels within the insurance industry in comparison to the size of the industry and in comparison to other parts of the financial services industry is as a result of lack of training and resources. Another 60% attributed the low STR reporting levels to lack of automated systems for AML detection, non-acceptance of cash as a method of premium payment by the industry and lack of senior management support.

It can be argued that suspicious transaction reporting is not a “numbers” game. The fact that there are higher numbers of STR’s reported does not necessarily mean that a company has successfully established an effective process for monitoring, identifying and reporting suspicious transactions. Likewise, the lower the number of STR reported does not necessarily mean that the company has not successfully established a robust AML regime. This may be true however; research has shown that there is a positive correlation between the volume of STR’s reported and the number of convictions relating to the predicate crimes for money laundering and the number and value of disclosures to law enforcement. There is power in numbers. What is more important is that life insurance companies implement an effective suspicious transaction monitoring system that generates quality STR’s that better assists FINTRAC in making disclosures to law enforcement, which in turn help in deterring, detecting and preventing money laundering on a much larger scale.

It is imperative that the insurance industry fully understand how their organization and business can be used for money laundering and ensure that sufficient controls are implemented in order to sufficiently mitigate the risk. There is a famous mantra which says “*dirty money is like water, it flows through the path of least resistance*”. The rapid advancements in technology mean that criminals are evolving and finding new ways in which to launder funds and legitimize their illegal funds. Criminals will continue to attempt to launder proceeds of crime through the wide range of services offered by the financial industry, it is important that the insurance sector continue to be vigilant against money laundering.

Investigative Forensic Accountant’s with their investigative skills, mindset and professional skepticism can help not only in the recognition, investigation and reporting of suspicious transactions but in the implementation of an effective suspicious transaction identification, monitoring and reporting system. The risk of undetected money laundering transactions within the life insurance industry can be sufficiently constrained by an effective and robust suspicious transaction monitoring system and process.

APPENDICES

Appendix A

Interview Survey Questions

All the information that you provide in the questionnaire is strictly confidential.

Instructions for completing survey questionnaire:

1. Use the table below to record the your responses (Check for Each Row)

#	Question	Response	Additional comments
1	What is your opinion on the extent of money laundering in Canada? Increasing, decreasing or relatively stable?	1. Increasing ☐ 2. Decreasing ☐ 3. Relatively Stable ☐ 4. No sure ☐	
2	Do you believe that the insurance sector, like other financial services sectors is exposed to the threat of money laundering? If yes, why?	1. Yes ☐ 2. No ☐	
3	In your experience, why is there a low detection of money laundering within the insurance industry in comparison to the size of the industry and in comparison to other parts of the financial services industry?	1. Lack of training and resources ☐ 2. Lack of support from snr mgt ☐ 3. Non-acceptance of cash ☐ 4. Lack of automated systems for AML detection ☐ 5. Other ☐	
4	What are the benefits of filing a suspicious transaction report?	1. Detection of criminal activity ☐ 2. Contributes data to Canada's FIU ☐	

#	Question	Response	Additional comments
		3. Other ☐	
5	Is the current legislation under which life the insurance industry are required to report suspicious transactions working? If yes, how? If not, please explain	1. Yes ☐ 2. No ☐ 3. Not sure ☐	
6	How can we help? What is the role of an IFA, in assessing the effectiveness of suspicious transaction reporting system at a life insurance company?	1. Help implement AML systems ☐ 2. Conduct Compliance audits ☐ 3. Training ☐ 4. All of the above ☐	
7	Which of the following best describes your job position? (Check One)	a. [ ] Regulator b. [ ] RCMP c. [ ] Consultant d. [ ] Life Insurance employee e [ ] Other	
Additional comments			

Send your completed questionnaire to:

Chioma Ufodike
E-mail: chiomaihekwoaba@yahoo.ca

Thank you for your participation!

Appendix B Letter of introduction and Consent Form for Research Project Interview

Diploma in Investigative & Forensic Accounting Program

Project Assignment for IFA 2903 – Emerging Issues/Advanced Topics

Research Project Interview Survey Questions

Title of Project: Money Laundering and the Life Insurance Industry: The Role of the IFA.

DIFA Student Researcher: Chioma Ihekwoaba-Ufodike **Contact at**: 647-404-2253

According to FINTRAC's reported statistical data, between 2003 and 2006, the number of Suspicious Transactions Reports (STRs) submitted by banks tripled from just over 4,000 to just over 12,000 , while that of the "Other" category which comprised of casinos, life insurance, real estate and securities dealers decreased from 740 to just fewer than 600 between 2003 and 2006. The total domestic asset size of Canada's life and health insurance companies is about 25% of the domestic asset size of banks, yet the suspicious transaction reporting levels for the life insurance companies when compared to that of the banks is less than 1%. Given the growing size of the insurance industry and its increasing vulnerability for life insurance companies to be used as a conduit for money laundering, why is there a low detection of money laundering within the insurance industry in comparison to the size of the industry and in comparison to other parts of the financial services industry?

The provision of information is important to assist me in better understanding the extent of the issue and in determining the role of an IFA in the improvement of the process and systems for unusual and suspicious transaction identification and reporting and in improving existing anti-money laundering safeguards and controls within the life insurance industry.

Thank you for your participation!

Appendix C Analysis of Interview Survey Questions

Interview Survey Questions Analysis					
#	Question		Response	# of Responses	% Responses
1	What is your opinion on the extent of money laundering in Canada? Increasing, decreasing or relatively stable?	1	Increasing	3	60%
		2	Decreasing	0	0%
		3	Relatively stable	1	20%
		4	Not Sure	1	20%
	Total			**5**	**100%**
2	Do you believe that the insurance sector, like other financial services sectors is exposed to the threat of money laundering? If yes, why?	1	Yes	5	100%
		2	No	0	0
	Total			**5**	**100%**
3	In your experience, why is there a low detection of money laundering within the insurance industry in comparison to the size of the industry and in comparison to other parts of the financial services industry?	1	Lack of Training and Resources	2	40%
		2	Lack of support from Senior management	1	20%
		3	Non-acceptance of cash	1	20%
		4	Lack of automated systems fro AML detection	1	20%
		5	Other	0	0
	Total			**5**	**100%**
4	What are the benefits of filing a suspicious transaction report?	1	Detection of criminal activity	3	60%
		2	Contributes data to Canada's FIU	1	20%
		3	Other	1	20%
	Total			**5**	**100%**
5	Is the current legislation under which life the insurance industry are required to report suspicious transactions working? If yes, how? If not, please explain	1	Yes	3	60%
		2	No	1	20%
		3	Not sure	1	20%
	Total			**5**	**100%**
6	How can we help? What is the role of an IFA, in assessing the effectiveness of suspicious transaction reporting system at a life insurance company?	1	Help implement AML systems	0	0
		2	Conduct compliance audits	0	0
		3	Training	0	0
		4	All of the above	5	100%
	Total			**5**	**100%**

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Appendix E Glossary of terms

PCMLATFA – Proceeds of Crime Money Laundering and Terrorist Financing Act

AML – Anti-money laundering

Life Co. – Life Company

CAMLO – Chief Anti-Money Laundering Officer

FINTRAC – Financial Transactions and Reporting Analysis Centre of Canada.

FATF - The Financial Action Task Force

FINCEN - Financial Crimes Enforcement Network

UNODC - United Nations Office on Drugs and Crime