

QUESTIONNAIRE ON THE INSURANCE SECTOR

Prepared by the FATF Working Group on Typologies (Insurance Project)

This questionnaire has been compiled to assist the FATF Typologies Working Group (Insurance Project) in its research on the threats money launderers pose to the insurance industry. The information gathered here will be treated in confidence and used by the project team to carry out its strategic analysis work. It is essential that respondents complete as much of the questionnaire as possible in order to ensure that the project team's final report forms an accurate assessment. Due to a limited timeframe for research, a reply is requested as soon as possible or at least **by 3 September 2004**. Where information is not readily available "Unknown" or estimates are acceptable.

The Insurance Project Team is particularly interested in analysing actual cases of money laundering involving insurance. Please complete Section 4 for as many actual cases as you can provide. For this reason, it is strongly suggested that this questionnaire be completed by representatives of the insurance supervisory authority and/or the financial intelligence unit (FIU).

We thank you for your help in this matter and if you have any queries regarding this request for information, please contact Mark Hammond, FATF Secretariat. (Mark.HAMMOND@fatf-gafi.org).

CONTACT DETAILS OF PERSON COMPLETING QUESTIONNAIRE

1. Name of respondent's country/territory: Israel
2. Name of respondent: Magie Braum
3. Telephone number: 972-2-5317348
4. Email address: magie@mof.gov.il
5. Date of this information: 2/09/2004

INDUSTRY SIZE

6. What is the size of your insurance (life, general, and reinsurance) and insurance intermediary sectors, in terms of number of firms and annual premium volume? For comparison purposes please give numbers of firms and income for your banking and asset management industries. Please also describe the insurance market structure (e.g. large vs. small insurers).

Market structure –

Insurance companies

25 insurance companies are active in Israel, not including foreign insurers and reinsurers. Of these, 12 are composite companies that write both, life and non-life insurance, the remaining 13 companies write non-life insurance only. There are 5 insurance groups, consisting of 10 companies, which represent approximately 95% of gross life insurance premiums and 75% of gross non-life

premiums.

Insurance intermediaries

9,714 individual intermediaries are active in Israel. Of these, 8,379 are authorized to engage in life insurance, 6,455 are authorized to engage in non-life insurance, and 4,809 are authorized to engage in both life and non-life insurance.

941 corporate insurance agencies are active in Israel. Of these, 881 are authorized to engage in life insurance, 830 are authorized to engage in non-life insurance, and 786 are authorized to engage in both life and non-life insurance.

Premiums (2003):

Total insurance premiums amounted to approximately \$US 7.0 billion, including \$US 3.1 billion for life insurance and \$US 3.9 billion for non-life insurance. Total insurance premiums represent approximately 6.4 percent of gross domestic product. In 2002, Israel was ranked 24th highest among world countries in terms of premiums as a percent of GDP.

Banking and asset management industries:

31 banks are active in Israel, of these 21 are commercial banks, 3 are foreign banks branches, 6 are mortgage banks and 1 is merchant bank. The deposits of the public amounted to approximately \$US 135 billion. 143 Asset management companies are active in Israel, they are managing approximately \$US 10 billion. (In Israel the AML applies also regarding to Stock exchange members who are not banks – 11, provident funds –207 and providers of currency services – approximately 640).

7. Please describe in general the nature of the relationship between an insurer and an intermediary (e.g. longstanding, due diligence performed, ownership relationship). Are there noticeable differences amongst the different types of intermediaries which operate in your country?

Approximately 10% of the annually premium is collect by agencies that are owned by insurance companies. The balance of the insurance premiums is collected by other intermediaries who usually have longstanding connection with the insurance companies. (The amount of direct premiums is discussed in the response to questions 8 and 9).

8. How many insurance products are being sold directly by insurers as opposed to those sold through intermediaries (please provide numbers for how many and premium volume figures)?

Life

More than 99% of 2003 premiums were generated by insurance agents. There are 2 companies that are direct writers. One is currently marketing only risk insurance and the other markets both risk and cash value policies.

Non-Life

Approximately 96% of 2003 premium was generated by insurance agents, while 4% was generated by direct marketing. Direct marketing was concentrated mostly in the following lines:

Line of Insurance	Percent of 2003 Premiums Generated by Direct Marketing
Personal accident	13%
Automobile property	9%
Automobile liability	8%
Homeowner	7%

9. Of the products that are sold directly by the insurer, how many are via telephone, internet, face-to-face, etc (please provide numbers for how many and premium volume figures)?

- The majority is sold via telephone;
- Number of policies – not available;
- Premium volume-

Line of Insurance	Premiums volume (by Direct Marketing)
Personal accident	\$US 7 million
Automobile property	\$US 104 million
Automobile liability	\$US 78 million
Homeowner	\$US 20 million
Other liabilities	\$US 11 million

10. Please give a brief summary of the AML regulations and supervisory regime (if any) imposed on your country's insurance markets and intermediaries.

Amongst the issues to consider are:

- What are the identification and verification requirements for insurance? Are there differences within the insurance sector with regards to these levels of due diligence?
- Is there any direct or indirect obligation on insurers/intermediaries to file STRs and is this consistent across the different business areas? (i.e. reinsurance, general, etc)
- What other anti-money laundering (AML) obligations are imposed? For example, must insurers provide their staff with AML training and do they have to appoint a Money Laundering Reporting Officer?
- Are there channels for communication amongst insurers within your country regarding money laundering threats from trends or individuals? If not, are there legal constraints preventing this sharing of information?
- How are integrity standards monitored, particularly with regards to intermediaries?

The AML regulations and supervisory regime impose on insurance companies and agents-

The Prohibition on Money Laundering (Requirements of Identification, Reporting and Keeping of Records by Insurer and Insurance Agent) Order, 5762-2001, sets the following obligations for insurance companies and agents -

- The obligation to identify recipients of services (recording and authentication of identity particulars).
- The obligation to retain identity documentation and documents attesting to the instruction to carry out transactions that were reported to the Israel Money Laundering Prohibition Authority, for a period of at least 7 years.
- The obligation to maintain a computerized database (this does not apply to providers of currency services).
- The obligation to report to the Israel Money Laundering Prohibition Authority certain transactions specified by size and type.
- The obligation to report to the Israel Money Laundering Prohibition Authority activities perceived by the financial institutions as unusual. This includes unusual transactions that seem to be linked to, related to or used for terrorism.

The identification and verification requirements-

An insurer may not enter into a life insurance contract or perform any transaction under it without recording and authenticating with respect to the policy holder, the insured person and person entering into the contract and the authorized representative and beneficiary where the beneficiary is not designated according to relationship or close family beneficiary. There is an exemption to the identification requirement for low premium insurance contracts, as to which there are tax incentives under Israeli law and for which, accordingly, identification occurs in another manner (up to 4,000 US\$ per year).

STRs

An insurer and insurance agent shall report to the competent authority any transaction under a life insurance contract which, in view of the information found in their possession, appears to be irregular in their opinion. , but without need to present questions and examine the facts with the recipient of the service and the person performing the transaction.

Other requirements-

As required by the law, all insurance companies and agents subject to the Order have appointed a compliance officer.

In addition, the commissioner required the insurance companies to appoint key personnel, to conduct staff training, and to modify their insurance policy application in accordance with the obligations set forth by the order.

Channels for communication amongst insurers-

Between companies there is no communication due to confidentiality restrictions. (However, with regards to insurance fraud, a privately operated, central database is being established, only for motor bodily injury. Individual insurance companies and other governmental organizations will provide information for this database).

Integrity standards-

Subject to the law, every insurance company must be licensed by the Commissioner for each class of insurance in which it is engaged. Insurance agents must also be licensed by the Commissioner. As part of the licensing process, the law sets integrity requirements for

the insurer's directors and managers, and for agents. In event of criminal offence, the commissioner has the authority to remove the intermediary's license, and to suspend director or manager.

11. Please detail any differences when comparing the AML regulations for insurance companies and intermediaries in your jurisdiction with the regulation for banks or asset management. If there are any, what are the reasons for the differences?

Generally, there are no differences between the orders, except for necessary adjustments for specific business –insurance, banking etc. (for example- the recipient of the services, reporting transactions or events etc.).

12. What is the percentage of insurers in your country which are owned by larger conglomerates (which may themselves be banks, for example)? Additionally what are the proportions for local/foreign ownership?

There is no insurance company in Israel that is controlled by Israeli larger conglomerates (subject to the Banking Licensing Law, banks are not allowed to have more than 20% share holding in any company). However there are some holding of insurance companies by banks (direct and indirect):

Held Insurer	Market Share (life insurance)	Holding Bank	Holding Percentage
Migdal	33.5%	Leumi	20%
Clal	22.5%	Hapoalim	16%
Direct insurance co.	Less than 0.3%	Leumi	20%
Harel	14%	Discount	16%

Israeli insurance companies that are controlled by foreign entities:

Israeli Insurer	Percent of Foreign Control
EMI- Mortgage guarantee Insurance	100%
Migdal	60%
AIG Israel	51%
Clal Credit Insurance	20%

13. What proportion of your country's insurance business is conducted with overseas customers? Please mention the countries, including breakdown, where these customers are located.

With regard to life insurance – there are no insurance business conducted with overseas customers.

14. Additionally could you detail any ways you are aware of in which insurance products are obtained/managed/redeemed in your country which are remarkable when compared to other countries?

There is nothing unusual in the way that insurance products are obtained / managed / redeemed in Israel.

15. What do you consider to be the main money laundering vulnerabilities facing your insurance sector and how large a risk do these pose to your financial industry as a whole? What factors present in your insurance sector enhance or mitigate these risks? Areas to consider might include anti-money laundering regulations, ease of access to products, or the structure of the market. Please provide figures which support your response where appropriate.

In our view, the main risk for money laundering exists in life insurance products which include savings, excluding policies for salaries employers (with regard to participating policies). However, the AML regulations mitigate the risk.

SUSPICIOUS TRANSACTION REPORTS MADE IN THE PERIOD 1999 – 2003

16. Could you specify the number of STRs produced in your country over the past five years? Please provide a percentage breakdown for each year by the sources' business type. For example, how many were from banks, insurers, and asset management firms? If possible, please provide a further breakdown of those provided by insurers as to their type of business (e.g. life, general or reinsurance).

Since the IMPA was established only in 2002, we only have data starting from 2002.

year	Total	Of these life insurance
2002	561	0
2003	1365	14
8/2004	2000	3
Estimation for 2004	3000	4

The overwhelming majority of the STRs reported by banks.

17. What was the average value of the policy mentioned in insurance STRs (if these details are recorded)?

Unavailable.

18. What percentage of STRs from insurers led to criminal/civil action being taken, if known (please provide more details below if your response does not suit the section on Criminal/Civil Cases)?

See the answer to question no 19.

19. Is this higher or lower than the percentage seen in banking and asset management STRs (please give detail where relevant)?

As mention in the answer to question 16, the overwhelming majority of the STRs reported by banks. Some of the STRs that reported by banks led to criminal/civil action. STRs that have reported by insurers until now have not led to criminal/civil action.

CRIMINAL/CIVIL CASES

The below template is offered as a means of formatting any information regarding criminal cases of which you are particularly aware involving the abuse of insurance markets (life, general, reinsurance) and its institutions/products in order to aid comparisons. It should not be considered as an exhaustive list and any other details which you believe to be important can be placed in the "Additional" area.

Note: Where you have *more than one case* to detail below (which have been identified in the past five years), please make copies of this section and answer each question as appropriate.

20. Please give a description of the case, including the actual process of money laundering used. Also, if known, is this a common case in your jurisdiction or is it unusual?

The Israel Money Laundering Prohibition Authority (hereinafter "IMPA") which functions as Israel's Financial Intelligence unit (FIU) was established as part of the ministry of justice on January 2002. In its short history IMPA has examined some suspicious transaction reported by insurance companies. The examinations have not found any connection to money laundering offence. However, some cases are still in process of examination.

21. Type of insurance institution concerned:

22. Name/type of product involved and the expected term of the policy:

23. Were the product and/or transaction(s) involved subject to regulatory scrutiny? For example, by tax authorities regarding tax exemptions or authorities involved in (international) money transfer.

24. Amount invested:
25. Associated predicate crime (if known):
26. Risk category of product (high, low, etc) if known – please specify the analysis which lead to this classification:
27. How was the product purchased (for example, overseas, on-line, phone, intermediary, etc)?
28. What was the nature of the business relationship between the client and the insurer? For example, was it longstanding or newly introduced? How was the client introduced?
29. In the event an intermediary was used, what was the nature of the business relationship between the intermediary and the insurance company?

30. Method of payment (cash, bankers draft, transfer, direct debit, etc):
31. Law enforcement agency/civil confiscation body concerned:
32. Outcome of above party's actions (for example, measures taken to reduce risk of similar activity reoccurring):
33. Amount of funds restrained/confiscated:
34. Associated details relating to restraining/confiscation order (for example, type and value of assets which were insured in cases relating to general insurance):
35. Factors which triggered suspicion (e.g. 3 rd party involvement, early redemption, etc):

36. Regulatory or other factors which were exploited by the subject to launder via insurance:

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37. Countries and / or territories involved:

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38. Number and outcome of associated STRs (if any) to FIU:

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39. Additional information (this section may include details such as how the policy was managed, how regular the credits were, other notable assets which came to light, etc):

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