

THE RISK-BASED APPROACH TO ANTI-MONEY LAUNDERING AT INSURANCE MARKET

Insurance market is one of the most dynamic sector of financial services market in Ukraine. The priority functions of the state in the insurance market is to create favorable conditions for insurance companies by minimizing the risks of insurers for the money laundering. Insurance companies filed more than 67,4 % of reports of suspicious transactions from non-banks financial institutions in 2015 [3]. This confirms the importance of an effective mechanism of anti-money laundering (AML) at insurance market.

The problems of development of a national system of AML at insurance market in Ukraine are studied by J. Andriychenko [1, 4], V. Bratyuk [2], S. Synyansky [5], O. Smaglo [6], etc. However, the problem of development the risk-based approach to AML at insurance market is not investigated, which determines the relevance and choice of research topic.

The aim of the study is to development theoretical approaches for improving risk-based approach to AML at insurance market.

The current global trend in insurance market regulation is towards the use of a risk-based regulatory approach. Risk-based regulation aims to identify and manage potential risks, or the activities or environment that may result in these risks occurring. The responsibility for identifying, mitigating and managing these risks under a risk-based regulatory regime falls to the regulated entity rather than the regulator [6].

The role of the regulator is to provide the framework within which the regulated sector or entities construct and implement their risk strategies and programs. The regulator provides the parameters through setting rules and guidelines and providing information to assist in the identification and mitigation processes, and is then responsible for monitoring the development and

implementation of those risk strategies by individual reporting entities and enforcing the law and associated regulations and rules.

According to the FATF recommendations [8], the risk assessment of insurance company business activities and clients using certain prescribed elements:

- products, services and delivery channels;
- geography related to clients of the company (their location, links to high-risk countries, where they conduct their business and transactions, etc.);
- clients and business relationships;
- other relevant factors.

This specific assessment will allow insurance company to identify high-risk business relationships and apply the prescribed special measures.

Risk-based approach cycle represents the six steps [7,9]:

- identification of company inherent risks (business-based risk assessment along with the relationship-based risk assessment);
- setting risk tolerance;
- creating risk-reduction measures and key controls;
- evaluating residual risks;
- implementing risk-based approach;
- reviewing risk-based approach.

It is necessary to consider the classification of the risks of participation of insurance companies in money laundering schemes. Author used seven classification criteria, which effect on the process of formation and development of a risk-based approach to financial monitoring. These criteria's are:

- by the object (operational, client, personal);
- by the importance (insignificant, significant, defining);
- by the possibility of foreseeing (predictable, unpredictable);
- by the information resources (risks associated with false information, risks associated with a lack of information);
- by the type of consequences (legal and regulatory, financial loss (liquidity, capitalization, lost profits));

- by the impact measures (motivation, target, stimulating, situational-tactical);
- by the external factors (risks associated with the level of the crime situation, risks associated with the economic crisis, risks associated with the sense of justice demotivate society, risks associated with the level of financial literacy, risks associated with changes in legal acts in the regulated area).

The classification of risks of insurance companies participating in money-laundering schemes creates conditions for the development and application of specific and timely financial monitoring tools.

Since money laundering is a complex process, it is necessary to develop guidelines for the formation of an efficient algorithm of a systematic approach to risk management of the insurer's participation in the illegal system of money laundering. Algorithm of risk-based approach to AML for insurance companies includes five stages:

1) stage 1 – analysis of service:

- defining the specific of services;
- qualitative assessment of the presence of threats;

2) stage 2 – assessment and analysis of customer identification data:

- characteristic of customer;
- the establishment of personal data;
- information about counterparty;

3) stage 3 – establishment of the beneficial owner:

– establishment the beneficial owner of the company through the counterparty information;

- monitoring of information posted on the website of state bodies;

4) stage 4 – monitoring of financial transactions:

- defining the source of funds for financial transaction;
- analysis of documentary confirmation of financial transaction;
- geographical analysis of financial transaction;

5) stage 5 – compilation of received information:

- ranking the risks by the level of damage.

Using of this algorithm will allow forming an integrated approach to the assessment risks of insurance products, services, customers and beneficial owners.

This algorithm promotes monitor the effectiveness of the AML measures, including accumulating information for further use, allowing you to create specific categories of risk of an insurance company's participation in the processes of money laundering and allow the early identification of emerging threats background.

Author suggest obtain additional information reflecting the nature and details of the client's business, e.g. the alleged source and origin of client funds for financial transaction, the reason and the purpose of establishing a business relationship; the estimated amount and nature of the financial transactions after the establishment of relationships.

An insurance company should develop a thorough understanding of the inherent money laundering risks present in its customer base, products, delivery channels and services offered (including products under development or to be launched) and the jurisdictions within which it or its customers do business. This understanding should be based on specific operational and transaction data and other internal information collected by the insurance company as well as external sources of information such as national risk assessments and country reports from international organizations. Policies and procedures for customer acceptance, due diligence and ongoing monitoring should be designed and implemented to adequately control those identified inherent risks. Any resulting residual risk should be managed in line with the insurer's risk profile established through its risk assessment. This assessment and understanding should be able to be demonstrated as required by the insurer's supervisor.

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