

Circular No. 026/IRDA/AML/Nov-06

November 9, 2006

To

All the General Insurers

Dear Sir/Madam,

Guidelines on Anti-Money Laundering Programme for Insurers

Please refer to our circular no. 043/IRDA/LIFE/AML/MAR-06 dated 31/03/06, and No. 013/IRDA/LIFE/ JUL-06 dated July 27, 2006 and 019/IRDA/AML/SEP-06 dated September 26, 2006 respectively containing "Guidelines on Anti-Money Laundering Programme for Insurers" and the clarifications thereto. We have now received a representation from general insurance sector for a review of the application of the extant AML framework in toto, to general insurance products considering, inter alia, that:

- They are less vulnerable to money laundering,
- They are essentially short term contracts and claims are paid after detailed investigation and settlement procedures.
- In view of the very large number of retail customers buying general insurance protection with low premia, adherence to KYC norms for small premium amount would be burdensome and not commensurate with the costs involved

The issues raised by the insurers and the General Insurance Council have been examined comprehensively. In this connection it is observed that internationally a number of countries have exempted general insurance sector from the purview of the AML regulations, as the sector is perceived to be less prone to ML risks. Moreover, the general experience is that general insurance products are comparatively more vulnerable to frauds and other risks including money laundering at the stage of invocation of claims, rather than at the customer acceptance stage.

2. In view of the above, it has been decided that while general insurance sector may not be totally exempted from the AML guidelines, it would be appropriate that they ensure compliance with the framework advised in our circular of March 31, 2006 **at the payout/refund stage where they are perceived to be vulnerable to such a risk.** Accordingly, the AML norms pertaining to KYC, should be applied by general insurance companies in respect of all policies

at the settlement stage and where claims payout/premium refund cross a threshold of Rs. 1 lakh per claim/premium refund. This revised arrangement would reduce the operational difficulties in the finalization of insurance contracts to cover risks to property and damages in the normal course of business and facilitate compliance with the AML requirement in spirit. It would concurrently check any intent to make fraudulent and disproportionate claims.

3. Notwithstanding the above, insurers are advised not to enter into any transactions (irrespective of the value of contract) with banned entities/individuals advised by the Authority from time to time and to comply strictly with Para 3.1.1 (vi) of the circular dated March 31, 2006 when entering into any contract. Procedures should also be put in place, at the stage of customer acceptance to avoid unwitting involvement in insuring assets bought out of illegal funds to mitigate possible reputational and other operational risks (Please see para 3.1.5 of the circular dated March 31, 2006). Similarly, in cases of any suspicions/concerns arising on the nature of any other transactions insurers are expected to exercise due caution on acceptance of customers and follow the guidelines when entering into a contract or settling claims even at levels lower than the thresholds.

4. The record keeping requirements required under Rule 3 and Rule 10 of the PMLA Rules 2005, in respect of claims settlements referred to above in para 2 should be complied with.

5. In view of the annual nature of contracts in the general insurance industry and considering the lead time to complete system changes, the above modified guidelines on anti-money laundering program for general insurance companies would be applicable prospectively to the policies coming into force on or after January 1, 2007. General insurers are advised to file their AML policy by December 1, 2006.

6. All the other provisions of the AML guidelines of March 31, 2006 and the other operational clarifications issued on July 27, 2006 and those advised to life insurers on September 26, 2006 would apply to general insurers also.

Yours faithfully,

/SD./

(C. R. Muralidharan)
Member