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ANTI MONEY LAUNDERING

Counter Funding Terrorism

What is Money Laundering ?

Money laundering is moving illegally acquired cash through financial system so that it appears to be legally acquired

It involves three stages

Placement

Layering

Integration

What is Money Laundering ?



Placement : means disposal of proceeds arising from an illegal activity by placing into the legal system.

Layering: means placing the money in the system, through complex financial structuring, in such a manner that it becomes difficult to trace the transactions to its original source.

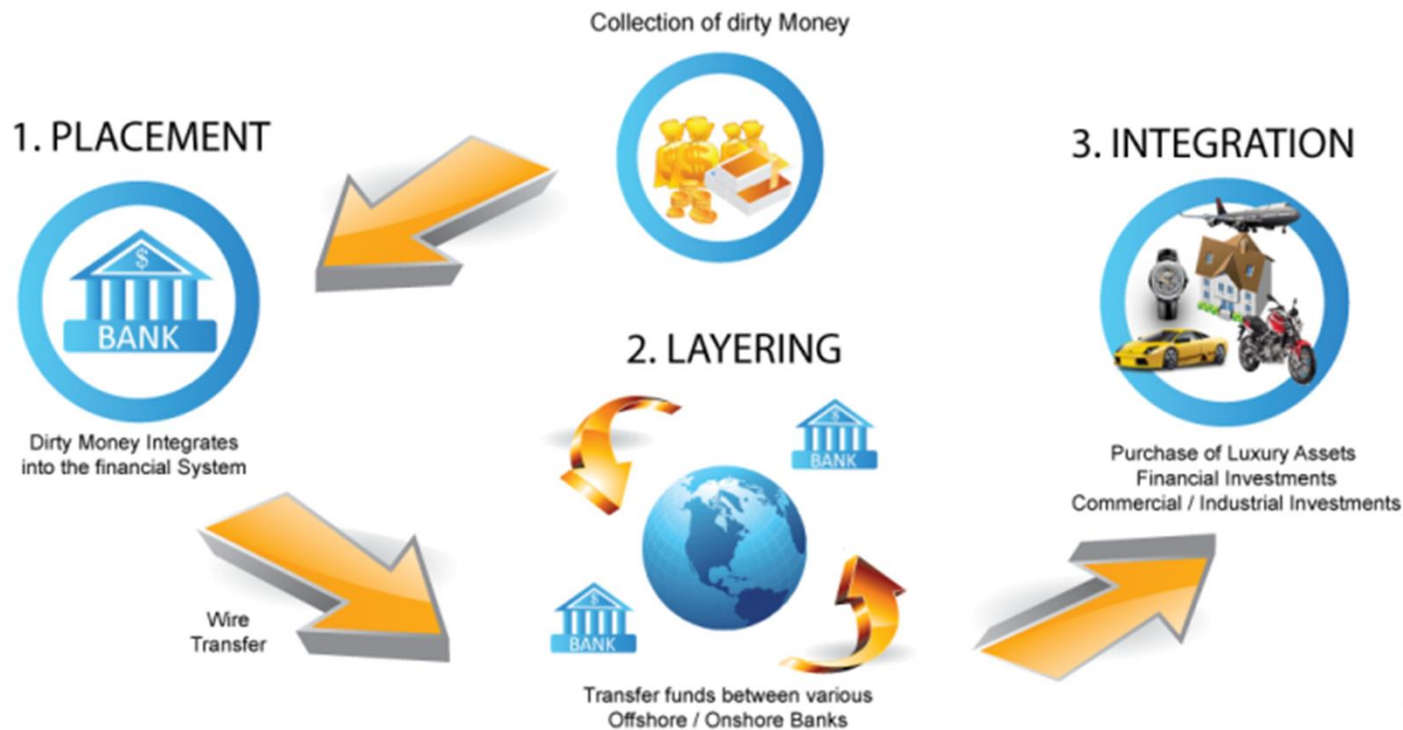
Integration: means channelizing the funds into legalistic assets like businesses, house, cars, financial assets such as investments, FDs, insurance products in such a way that it appears to be normal funds.



Example of Money Laundering



A TYPICAL MONEY LAUNDERING SCHEME



Regulatory Framework

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Prevention of Money – Laundering Act, 2002
and further amendments to date

Financial Action Task Force

Insurance Regulatory and Development Authority of India
Guidelines on Anti – Money Laundering Policy

The Unlawful Activities (Prevention) Act, 1967
and further amendments to date

Insurance Industry- Money Laundering

- Money Launderers may use insurance companies as conduit
- Insurers offer a variety of products aimed at transferring the financial risk of a certain event from the insured to the insurer.
- These products include life insurance contracts, annuity contracts, non-life insurance contracts, and health insurance contracts.
- These products are offered to the public through trained agents of the insurance companies and also through a number of alternate distribution channels like direct marketing, bancassurance , etc.
- Training of the AML Guidelines is applicable to agency force too



How to ensure it doesn't happen?



To ascertain such instances do not happen at HDFC ERGO,

KYC/AML Policy Document is :

- Designed to ensure the sale of Insurance Products are not used for any illegal purposes as contemplated in the Regulations and the transactions of the company are in compliance therewith.
- Seeks to provide the users with a broad perspective of the Regulations and enable them at various parts of the entity to understand the requirements there under so as to ensure compliance.

Anti-Money Laundering Program



The AML Program of the company



Know Your customer (KYC)



KYC is a process to determine the true identity of customers.

It can be of two types:

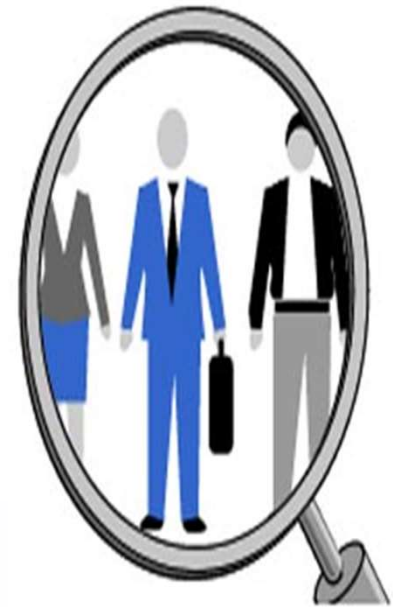
- Basic KYC: Check on the identity and residential address
Doc. Reqd: ID proof + Address proof +
Photograph
- 2. Enhanced KYC: Basic KYC + check on the genuineness of
“source of funds”

The first defence against money laundering is often termed as KYC - *Know Your Customer*

Know Your customer (KYC) norms

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- Proposal Forms to have questionnaires/declarations on sources of funds and details of bank accounts
- Verify identity of customers for all contracts during claim payout / premium refund stage for amounts > Rs. 1 lakh per claim / refund
- In case claim/ refund is paid out to third parties (e.g. garage, network hospital etc.), KYC shall apply on “customers” on whose behalf service providers act
- Any change in customer’s profile which is inconsistent with its normal and expected activity should be examined.
- Due diligence for policies assigned to unrelated third parties (except where the assignment is to Banks/FIs/Capital Market Intermediaries regulated by IRDAI/RBI/SEBI) should be extremely vigilant
- No contracts to be entered into with any person with known criminal background or with banned entities (eg. UNSC List) and those reported to have links with terrorists or terrorist organizations



Know Your Customer

When to apply KYC checks



KYC should be carried out at the settlement stage where claim payout/premium refund crosses a threshold of Rs. 1 lakh per claim/premium refund



KYC should be carried out for payments that are made to third party service providers such as hospitals/garages/repairers etc.



Additional due diligence to be carried out if the policy is assigned to a third party not related to the policyholder (except where the assignment is to Banks/FIs/Capital Market Intermediaries regulated by IRDA/RBI/SEBI)

Monitoring Transactions



Cash Transactions

Individuals at HDFC ERGO will have to monitor and report cash transactions done at two stages:

1. Proposal Stage
2. Payout Stage

PROPOSAL STAGE

Transactions <10 lacs

A person/entity can deposit cash amount beyond Rs 50000/- quoting his / her PAN.

Form 60 / 61 shall be collected mainly from Customers with agriculture income /non eligible members.

Details of PAN of person / entity funding the premium / proposal deposit on an insurance policy shall be obtained.

Premium collected from various customers and remitted by intermediaries is excluded.

Transactions >10 lacs

A person / entity can deposit above Rs 10 lacs per month it would be reported to FIU-IND by 15th of the next month.

If the Customer attempts to avoid disclosure of PAN details , it shall be reviewed and reported to FIU-IND if required.

Premium collected from various customers and remitted by intermediaries is excluded.

Monitoring Transactions

PAYOUT STAGE

- Payments in all cases shall be made after due verification of the bonafide beneficiary.
- Payments shall be made through electronic payment methods such as ECS, NEFT systems approved by the Reserve Bank of India and account payee cheque in exception.

Electronic Clearing Services ECS

**National Electronic Fund Transfer
NEFT**

Account Payee Cheques



Reporting obligations



- Insurers have to submit the following reports to the Financial Intelligence Unit (FIU) of Govt. of India:

Suspicious Transaction Report (STR)

Cash Transaction Report (CTR)

Report for payment to Non Profit Organizations

Counterfeit Currency Report (CCR)

What is a suspicious transaction

- Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith
 - Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
 - Appears to be made in circumstances of unusual or unjustified complexity; or
 - Appears to have no economic rationale or bonafide purpose

Illustrative list of Suspicious transactions

- Customer insisting on anonymity, reluctance to provide identifying information, or providing minimal, seemingly fictitious information;
- Multiple Demand drafts each denominated for less than Rs. 49,999/-;
- Frequent free look surrenders by customers;
- Assignments to unrelated parties without valid consideration including entities regulated by RBI/SEBI/IRDA;
- Policy from a place where he does not reside or is employed;
- Unusual terminating of policies and refunds;
- Frequent request for change in addresses;
- Borrowing maximum amount against policy soon after buying it;
- Inflated or totally fraudulent claims e.g. by arson or other means causing a fraud;
- Claim to be made to recover part of invested illegitimate funds;
- Overpayment of premiums with a request for a refund of the amount overpaid;
- Avoid disclosure of PAN details.

Banned Entities



Section 51A of Unlawful Activities Prevention Act, 1957 authorises Central Govt. to freeze, seize and/or attach funds of individuals/ entities engaged in terrorist activities.

In order to implement Section 51A :

IRDA periodically sends the list of persons on the “UN Sanctions List” to all insurers. HDFC ERGO to update the same in its system and periodically scan its customer database for any matches with such entities.

Individuals at HDFC ERGO would conduct detailed due diligence while issuing policies to individuals / entities connected with Countries identified by FATF as having deficiencies in their AML / CFT or considered as high risk from terrorist financing or money laundering.



In case any suspicion is observed, procedure for reporting of STR to be followed.

Reporting obligations

- Reporting Requirements : FIU-IND
 - Any cash transaction & integrally connected cash transactions >Rs. 10 lacs p.m. by 15th of next month
 - Suspicious Transactions, in cash or otherwise of any value to be reported within 7 days of identification
 - Receipt of forged / counterfeit currency notes irrespective of its value to be reported within 7 days of identification

- Reporting Requirements : Compliance Officer
 - Proposal / business from banned entities to be reported immediately.
 - Suspicious transactions within knowledge of employees/agents to be informed immediately for necessary action.
 - Receipt of counterfeit currency/fake notes to be reported within one working day of identification.

Recruitment & Training of Employees & Agents

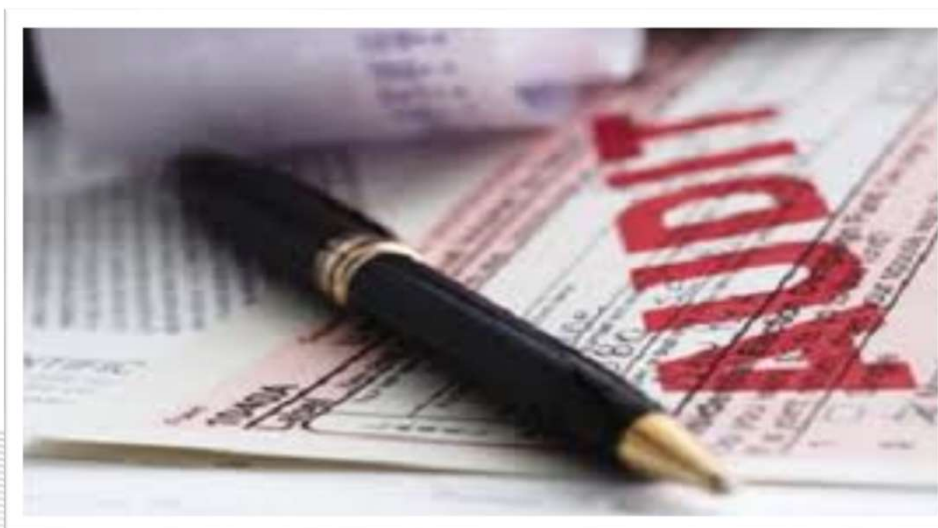
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- Periodic reviews to ensure adherence to process
- Adequate screening procedures when hiring employees.
- Insurance Manuals on various procedures
- In-house training curriculum for agents
- On-going training and maintenance of records for all the employees



Periodic Audits

- HDFC ERGO General Insurance Company Ltd conducts periodic audits on a regular basis to verify compliance with policies, procedures and controls relating to money laundering activities
- A review of the AML compliance activities undertaken by the Company in its processes would be conducted to strengthen and offer suggestions based on the review



Record Keeping

- Record keeping has to be sufficient to permit reconstruction of individual transactions swiftly in case of an investigation

- Insurers have to retain records of following transactions for a minimum period of 10 years:
 - Reporting made to FIU and the back-up working papers
 - Documents relating to the verification of the identity of clients
 - Records pertaining to accounts settled by claim/maturity/ surrender or cancellation



Your Responsibility



- In case of any suspicion of money laundering/ terrorist financing,
- It is your duty to report immediately to the Chief Compliance officer at Dayanand.Shetty@hdfcergo.com
- Seek AML advisory on any clarification on applicability of AML regulations



Remember : Your vigilance can make a big difference !!!

Summary: Prevention of Money Laundering



Observing Rules for Insurers

Compliance with Laws

Money Laundering Prevention

Customer due diligence

Identifying Irregular / Suspicious Transactions

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Thank You