

# Airing Out the Issues of Money Laundering

Multinationals Face Heightened Compliance Requirements in High Risk Countries



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By Kathleen Ellis

As the international community steps up its efforts to fight money laundering, a number of countries are now requiring insurers to obtain additional information from their customers to screen out possible bad actors.

For multinationals interested in doing business in these countries, this means they may have to provide their insurers with a variety of documents before they can obtain the insurance they need.

Most multinationals are, of course, legitimate businesses and are unlikely to try to use their insurer to launder money. Even so, the insurance industry is not invulnerable.

The U.S. government, in its National Money Laundering Strategy for 2007 report, noted that the insurance industry has undergone a transformation and may become increasingly attractive to money launderers. 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, according to the report. A number of money laundering methods have been used to exploit insurance products, primarily life insurance and annuities, the report continued.

Although multinationals are not typically buyers of life insurance and annuities, foreign governments are imposing demands across the board in their effort to keep the financial services sector free of criminal influence, and so insurers have no choice but to insist their customers provide them with the necessary documentation as they seek to comply with government regulations.

## Background

Legend has it that modern-day money

laundering can trace its roots back to the conviction of Al Capone in 1931 on tax evasion charges. That conviction forced Meyer Lansky, known as the Mob's Accountant, to recognize that he too was vulnerable. In "The Laundrymen," one of the definitive books on money laundering, author Jeffrey Robinson credits Lansky, with the invention of dummy accounts and bogus wire transfers.

Since then, criminal organizations have developed a number of different schemes to help them sanitize the proceeds from illegal activities — ranging from drug trafficking and prostitution, to illegal arms sales — and to help them avoid the attention of law enforcement authorities.

Money laundering is a big business. How big is not exactly clear, but, Robinson, the author of "The Laundrymen," claims money laundering is the world's third largest business.

In its attempt to come up with an estimate, the International Monetary Fund in 1996 stated that the aggregate size of money laundering in the world could be somewhere between 2 percent and 5 percent of the world's gross domestic product,

according to the Financial Action Task Force (FATF), an intergovernmental policy-making body dedicated to combating money laundering and terrorist financing.

Using these statistics, these percentages would indicate that money laundering ranged from \$590 billion and \$1.5 trillion, according to the FATF, which noted that the lower figure is roughly equivalent to the value of the total output of an economy the size of Spain.

Money laundering has become a serious concern for the international community in recent years because proceeds are often used to finance terrorism. But because money laundering depends on corruption in business and government, it also has a corrosive effect on economic development as well as the stability of the financial system.

Money laundering can discourage foreign direct investment

when a country's commercial and financial sectors are seen to be subject to the control and influence of organized crime, according to the FATF.

Other consequences include damage to the integrity of financial institutions and governments as well as damage to collec-



tive ethical standards.

As the FATF has noted, money laundering is inextricably linked to the underlying criminal activity that generated it and helps to perpetuate it.

For its part, the IMF has said it is especially concerned about the possible consequences of money laundering and terrorist financing on its members' economies and on international financial stability.

In response to a request last year by the G-20, the FATF earlier this year issued a list of countries where anti-money laundering efforts have been inadequate. Countries that were blacklisted, included Iran, Angola, North Korea, Ecuador and Ethiopia. Pakistan, Turkmenistan and Sao Tome and Principe also were found to have problems in their systems for countering money laundering that remain to be addressed.

The United States is not without its own problems in the fight against money laundering. A recent investigation by the Senate's Permanent Subcommittee on Investigations found that corrupt foreign officials and their relatives have used gaps in U.S. law and the assistance of U.S. professionals to funnel millions of dollars in illicit money into the United States.

### Insurance Company Requirements

In light of the growing concern about money laundering, some countries have been taking action to crack down on the problem and improve their standing in the international community.

These governments are requiring insurers to obtain documents and take other actions to ensure that they are not being used by criminal organizations to help launder illicit funds.

Countries that are imposing these requirements on insurers include: Mexico, Brazil, Argentina, Colombia and Malaysia.

One of the countries with the most extensive requirements is Mexico. Before they can get insurance, multinationals with operations in Mexico must provide their insurers with a number of documents,

including: a certified copy of the act of incorporation; federal taxpayer's registry; a document that proves the address of the company in Mexico; a certified copy of the document showing the legal authority of

the company's representatives; and a copy of the official identification of the legal

representative, such as passport or card of military service.

If the parent company in the United States or Canada is included on the Mexican policy as a named insured or beneficiary, each non-Mexican company that is included under the admitted policy also must provide the insurer with similar documentation.

Brazil, meanwhile, wants insurers to check the insured's names against a database of bad actors.

Insurers have to ask for this information and are not able to provide insurance without it. So while the multinational may not be at risk from money laundering directly, there is a compliance risk that could lead to an inability to obtain required insurance coverage.

## The insurance industry has undergone a transformation and may become increasingly attractive to money launderers.

### Risk Management

The management of this risk is fairly straightforward. Agents and brokers can help their clients to comply with this request by helping them to understand the purpose and significance of the insurer's request.

Multinationals that want to do business in countries that impose anti-money laundering requirements on insurers must be prepared to provide any of the documents requested by their insurers. It may, in some cases, lead to additional paperwork for the insured.

But this is really a small price to pay. As governments attempt to crack down on this problem, multinationals will have to be prepared to comply with the regulations imposed on their insurers.

Money laundering has become a big, international business heavily influenced by organized crime and a significant factor in the financing of terrorism. With cooperation from business and governments around the world, authorities may have a chance to at least limit the damaging influence of money laundering, corruption and terrorist financing. ■

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