Guidance for Insurance Sector on the Best Practices for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Compliance
(Subject: Practical Suggestions on Prevention and Control of Money Laundering Risk in Tax Crimes)

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Foreword:

These best practices guidance is provided for the reference of insurance enterprises in undertaking anti-money laundering and countering the financing of terrorism (AML/CFT) operation. It is not meant to be mandatory. An insurance enterprise may, based on the nature and size of its business and in consideration of the results of risk assessment in the areas of geographic locations, customers, products and services, transactions and delivery channels, select the most appropriate best practices to prevent or reduce money laundering and terrorist financing (ML/TF) risks.

Practical Suggestions on Prevention of Money Laundering Risk in Tax Crimes

I. Threats faced

Pursuant to National ML/TF Risk Assessment Report ("NRA") issued on May 2, 2018, Taiwan is now facing a very high risk of tax crimes. Based on the trend of international anti-tax avoidance measures such as strengthening tax information exchange and transnational tax cooperation, as well as the provisions of Article 3, paragraph 7 of the Amendment to the Money Laundering Prevention Act, which came into effect on June 28, 2017, the addition of Article 41, Article 42, and item 1 and 2 of Article 43 of the Tax Collection Act is specific crime of money laundering. Insurance companies should pay careful attention to the risk of money laundering related to tax crimes and take corresponding control measures.

Tax crimes generally refer to tax evasion cases. Common methods include issuing or obtaining false unified invoices, helping oneself or others to evade business tax, profit-making enterprise income tax and comprehensive income tax. The insurance industry may refer to the tax evasion methods analyzed in NRA. Tax crime patterns shared on the website of the Money Laundering Prevention Department of the Investigation Bureau, the compilation of money laundering cases (tax crimes), and the common tax evasion and tax evasion patterns provided by the Ministry of Finance (e.g. Letter No. Tai-Cai-Shui-Zi 10704581640 from the Ministry of Finance on May 15, 2018) in order to understand the characterization of tax crime.

II. Identifying and assessing the Risk of Customer Conducting Money Laundering for Tax Crimes

Insurance companies should understand the risk profile of customer conducting money laundering for tax crimes, and incorporate the risk assessment of tax crimes into the relevant procedures of preventing money laundering and countering terrorism financing, including know your customer process(“KYC”), continuous review, transaction monitoring, etc. It is advisable to declare suspicious transaction patterns or unusual cash flows identified through the overall process of preventing money laundering and countering terrorism financing so as to facilitate the relevant authorities to conduct follow-up analysis and disposal to effectively detect and prevent the derivative assets of serious tax crimes from entering the financial industry.

III. Risk prevention mechanism against money laundering of tax criminal proceeds and terrorism financing

1. When conducting KYC, continuous review and transaction monitoring, insurance companies should obtain relevant information (e.g. whether corporate clients can/have issued bearer shares, identify beneficial owner of the corporate/group clients, the purpose of establishing relationships, sources of

funds, and the information and documents provided to meet the requirements of international and domestic tax standards). When suspected transaction patterns related to the risk of money laundering in tax crimes are found, further investigation should be conducted to confirm whether there are sufficient reasons to exclude doubts about the risk of tax money laundering and whether enhanced control measures should be adopted: if not, suspected money laundering transaction should be declared in accordance with internal procedures to the Investigation Bureau of the Ministry of Justice.

2. For customers who may be at higher risk of money laundering in tax crimes, insurance companies should take corresponding measures to enhance control according to their assessed risk levels and reference “the practice of strengthening and simplifying customer review and continuous monitoring mechanism by using risk-based approach in the insurance industry” to reduce the risk. Examples are as follows：
   (1) Before establishing or involving new business relationships, the insurance company should obtain the approval of senior management designed in accordance with internal risk considerations.
   (2) Reasonable measures should be taken to understand customers' wealth and sources of funds. Among the source of funds refers to the substantial source of funds (such as salary, investment income, real estate, etc.).
   (3) Adopt strengthened and sustained supervision of business relations.

3. Examples of suspected transaction patterns in the risk of money laundering in tax crimes:
   When identifying the risk of money laundering in tax crimes,

insurance companies may refer to the following examples and take into account the "Appendix: Suspected Transaction Patterns of Money Laundering or Terrorism Financing" in the "Model Notes for Preventing Money Laundering and Countering Terrorism Financing in the Life Insurance Industry". Insurance companies should assess the risk according to individual cases, and be alert against multiple warnings to the same customer.

(1) Customer identity information

A. The purpose and motive of customers in establishing business relations or transactions are not convincing, or have doubts about the statement of sources of funds, especially for insurance commodities of the Offshore Insurance Unit (OIU).

B. A corporate client/trust has a complex (equity) structure and intentionally evades the completion of the identification procedures.

C. Substantive beneficiaries of corporate clients/trusts are anonymous shareholders (e.g. substantive investors and controlling persons who are not registered on the shareholders' roster) and deliberately circumvent the completion of the procedures related to identification.

D. When inquiring customers, negative information related to violation of tax laws or evasion of tax obligations is found, such as tax evasion or tax crimes.

(2) Customer abnormal transactions

A. Non-self (including domestic and foreign) payments and large premiums with no interest related, policy borrowings and loans without justifiable reasons.

B. Large amounts of inbound and outbound remittances and remittances from customer transactions involving offshore tax havens without justifiable reasons.

C. In a case where premium is not paid by the insurance applicant, a request of policy cancellation or termination is made shortly after premium payment and a large sum of premium or cash surrender value is returned to the applicant without justifiable reasons.

(3) Customer abnormal behavior

A. In performing the relevant tax assessment work, the insurance company finds that the customer is suspected of evading tax obligations, such as refusing or deliberately concealing documents or information based on the requirements of international and domestic tax standards.

B. Customers indicate that the purpose of insurance and transaction is to conceal revenue, sources of assets or avoid taxation by tax authorities.

C. For examples of taxing inheritance and referencing characteristics pursuant to customer's death life insurance premium should be assessed according to the principle of substantive taxation when they are insured (Letter No. Tai-Cai-Shui-Zi No. 10200501712 of the Ministry of Finance dated January 18, 2013), for example, pertinent to the insurance amount of lump sum payment of insurance, old age insurance, short-term insurance, large amount of insurance, insurance premium, etc.

D. After a policy has its applicant changed, the new applicant requests policy termination in a short period of time (e.g. a parent changes the applicant to his or her child and then requests policy termination) and is unable to provide a reasonable explanation.

IV. Trainings and Awareness

Insurance companies may implement relevant trainings and promotions on money laundering from tax crime proceeds and risk prevention of terrorism financing, including red flag of suspected transaction and common types of tax evasion, so as to enable employees to understand their obligations and processing procedures. The training can be conducted independently on the control of the risk of money laundering and terrorism financing from tax crimes, or as part of the overall anti-money laundering training, and can be incorporated into the statutory training hours.

V. Employee code of conduct

An insurance company may, by virtue of its employee code of conduct or related policy and procedures, specify that employees shall not intentionally assist customers in arranging for tax evasion.