



National Bank of Serbia

AML SUPERVISION CENTRE

**ANALYSIS OF RESPONSES TO THE
QUESTIONNAIRE ON INSURANCE
UNDERTAKINGS' ML/TF RISK
MANAGEMENT ACTIVITIES**

2023

October 2024

1 Introductory note

The Insurance Law (RS Official Gazette, Nos 139/2014 and 44/2021) stipulates that the National Bank of Serbia exercises supervision of insurance activities, while the Law on the Prevention of Money Laundering and the Financing of Terrorism (RS Official Gazette, Nos 113/2017, 91/2019, 153/2020 and 92/2023) stipulates that the obliged entities under that law are insurance undertakings licensed to carry out life insurance and that the relevant supervision is carried out by applying accordingly provisions of the Insurance Law.

In 2017, the National Bank of Serbia established the practice of off-site monitoring of insurance undertakings' activities in ML/TF risk management, based on data collected via the Questionnaire on Insurance Undertakings' ML/TF Risk Management Activities. From 2018 until 2024 it carried out thematic supervisions in this area, covering all obliged entities. Starting from the 2023 Questionnaire, the NBS also began to publish the main aggregate data based on the questionnaire analysis.

Questionnaire questions are clustered into 12 parts:

Part I: General data on insurance undertakings

Part II: Data on persons in charge of ML/TF prevention

Part III: Structure of life insurance sales network

Part IV: Internal acts and procedures for ML/TF prevention

Part V: Managing ML/TF risk

Part VI: Customer data

Part VII: Data on products and transactions

Part VIII: Reporting to the Administration for the Prevention of Money Laundering

Part IX: Internal audit and internal control

Part X: Training for employees and sales agents

Part XI: Prevention of terrorism and proliferation of weapons of mass destruction

Part XII: Additional comments

The key objectives of the analysis of Questionnaire responses:

- analysing the state-of-play in the process of identifying, measuring and managing ML/TF risk in insurance,
- off-site monitoring of the development of the ML/TF risk management system in insurance undertakings,
- identifying potential weaknesses and timely alerting to potential exposure to this risk and/or guiding supervision procedures.

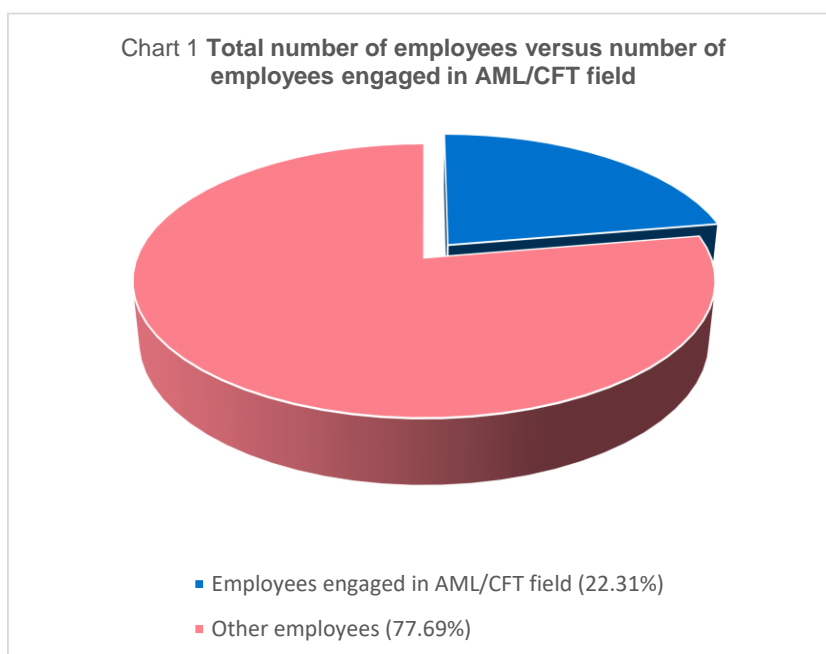
In the reporting period 1 January –31 December 2023, all insurance undertakings licensed to carry out life insurance (a total of 10 undertakings) responded to the Questionnaire, and the analysis below is based on their responses.

2 General data on insurance undertakings

Insurance undertakings which are obliged entities under the Law on the Prevention of Money Laundering and the Financing of Terrorism (Law on the Prevention of ML/TF) in 2023:

- "Dunav osiguranje" a.d.o. Beograd,
- "DDOR Novi Sad" a.d.o. Novi Sad,
- "Generali Osiguranje Srbija" a.d.o. Beograd,
- "Wiener Stadtische" a.d.o. Beograd,
- "Grawe" a.d.o. Beograd,
- "Triglav Osiguranje" a.d.o. Beograd,
- "Uniqa životno osiguranje" a.d.o. Beograd,
- "OTP osiguranje" a.d.o. Beograd,
- "Sava životno osiguranje" a.d.o. Beograd,
- "Merkur osiguranje" a.d.o. Beograd.

Presented below is a summary overview of the structure of employees in the above listed insurance undertakings, from the standpoint of the Law on the Prevention of ML/TF.

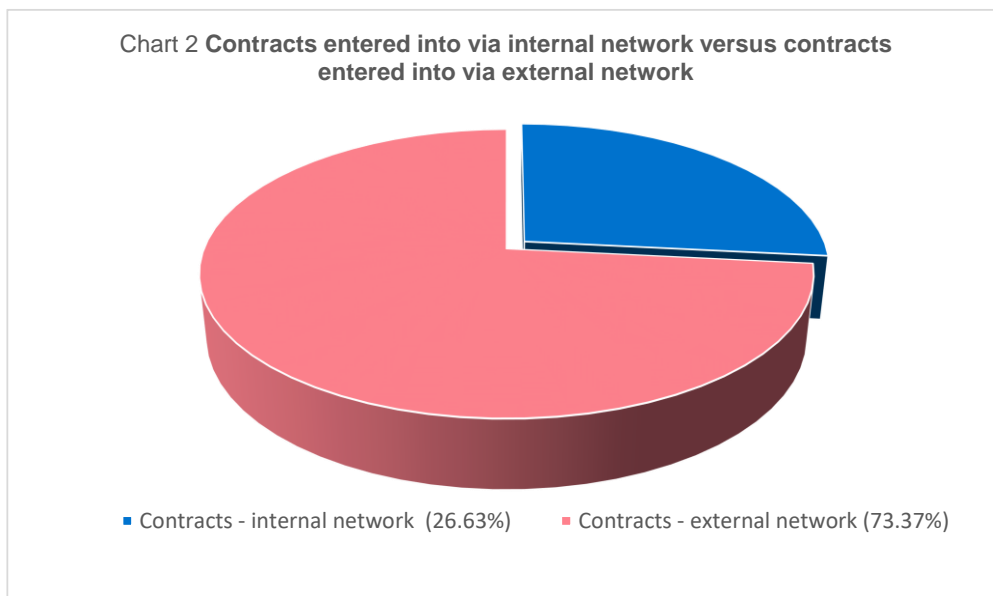


3 Persons responsible for ML/TF prevention in insurance

Insurance undertakings have designated one compliance officer each and a deputy of such compliance officer for meeting the obligations under the Law on the Prevention of ML/TF. They also nominated representatives of the top management (executive board members) responsible for the implementation of the Law and their contact details have been submitted to the Administration for the Prevention of Money Laundering of the Ministry of Finance of the Republic of Serbia (AML Administration).

4 Structure of life insurance sales network

Insurance undertakings report that a bulk of contracts in 2023 were concluded via the external sales network.



This network is partially covered by the system for the protection against ML/TF. Namely, according to the relevant European directives, insurance undertakings engaged in life insurance are the entities obliged to apply regulations governing the prevention of ML/TF (obliged entities), as are insurance brokers (insurance brokerage undertakings, when brokering the conclusion of life insurance contracts). Insurance agency undertakings and insurance agents are exempted from this obligation in practice, bearing in mind that the insurance undertaking is accountable for their work, according to the law governing insurance.

5 Internal acts and procedures for the prevention of ML/TF in insurance undertakings

Insurance undertakings have adopted sets of internal regulations preventing all potential ML/TF activities. All such regulations are constantly reviewed and updated on an ongoing basis, in order to more adequately respond to the challenges in ML/TF prevention.

These internal regulations also include the acts governing the know your client process and the list of indicators for detecting suspicious persons and transactions in terms of ML/TF.

There was only one case of outsourcing some customer due diligence activities, in accordance with the law. The insurance undertaking outsourced those activities to a legal representative.

After the Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person through Means of Electronic Communication (RS Official Gazette, Nos 15/2019 and 84/2020) was added to the regulations on the prevention of ML/TF, insurance undertakings have considered possibilities of customer video identification, which requires prior fulfilment of specific conditions. Concluding with the date of preparation of this analysis, three insurance undertakings have met those conditions.

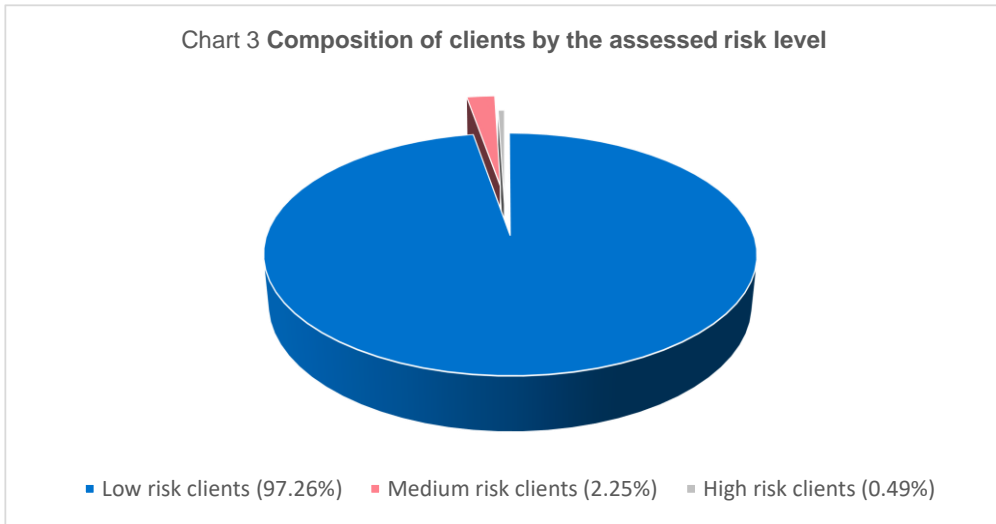
The Law on the Prevention of ML/TF defines separately customer identification obligations in life insurance, pertaining to the policyholder at the moment of entering into a business relation and to the beneficiary at the moment of payout of the insured amount.

The Law also prescribes in detail the actions and measures to be taken by the obliged entity in order to efficiently prevent the abuse of insurance activity for ML/TF.

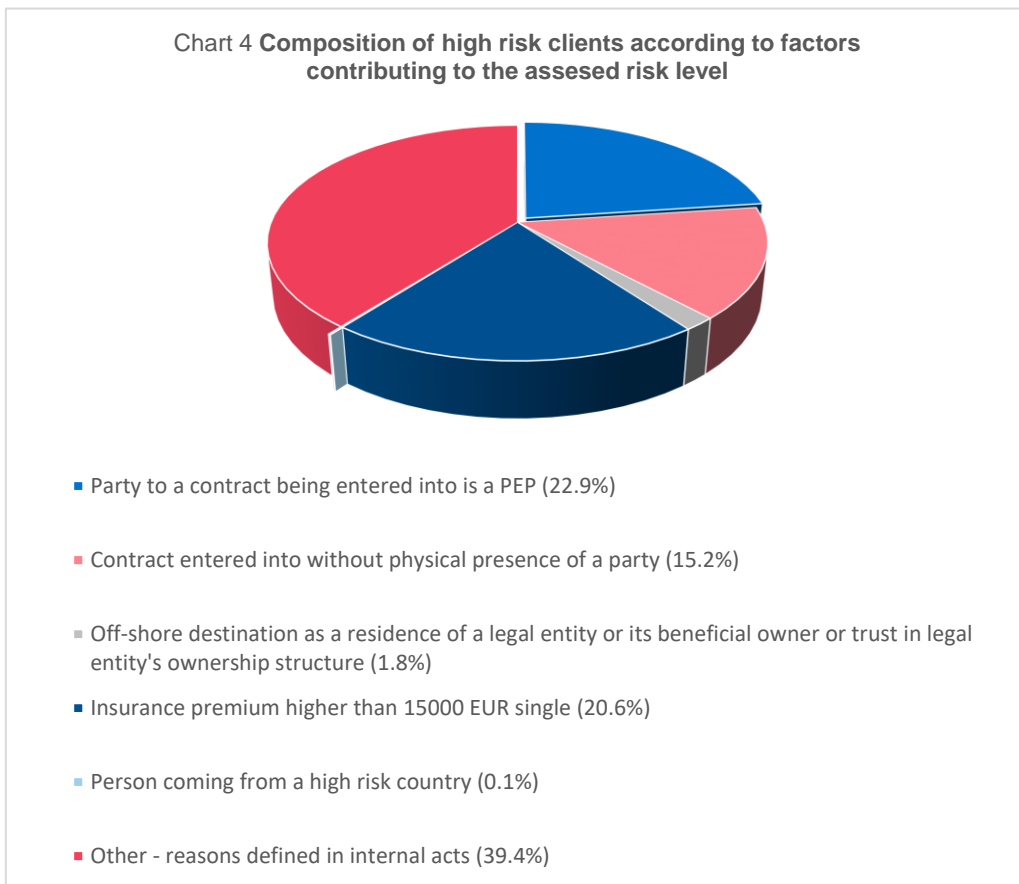
6 Managing ML/TF risk in insurance

ML/TF risk in insurance undertakings is managed in accordance with the general risk management standards, while observing all the specific norms defined by the regulations on the prevention of ML/TF. Insurance undertakings prepare and update on an ongoing basis the analyses and assessments of exposure to ML/TF risk, in order to minimise and manage that risk in an adequate and quality manner. One of the main results of such analysis is risk classification of customers.

As shown in Chart 3, such classification includes three main categories (low, medium and high risk).



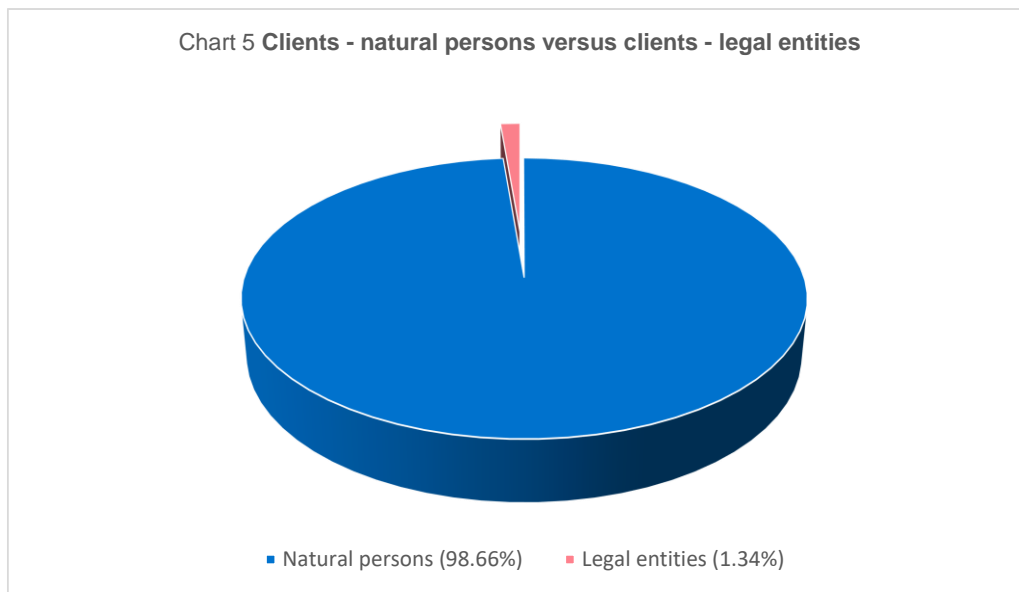
A customer is classified in a high-risk category according to certain characteristics, which are broken down in Chart 4.



The overall assessment of exposure to ML/TF risk according to customer structure is “low”.

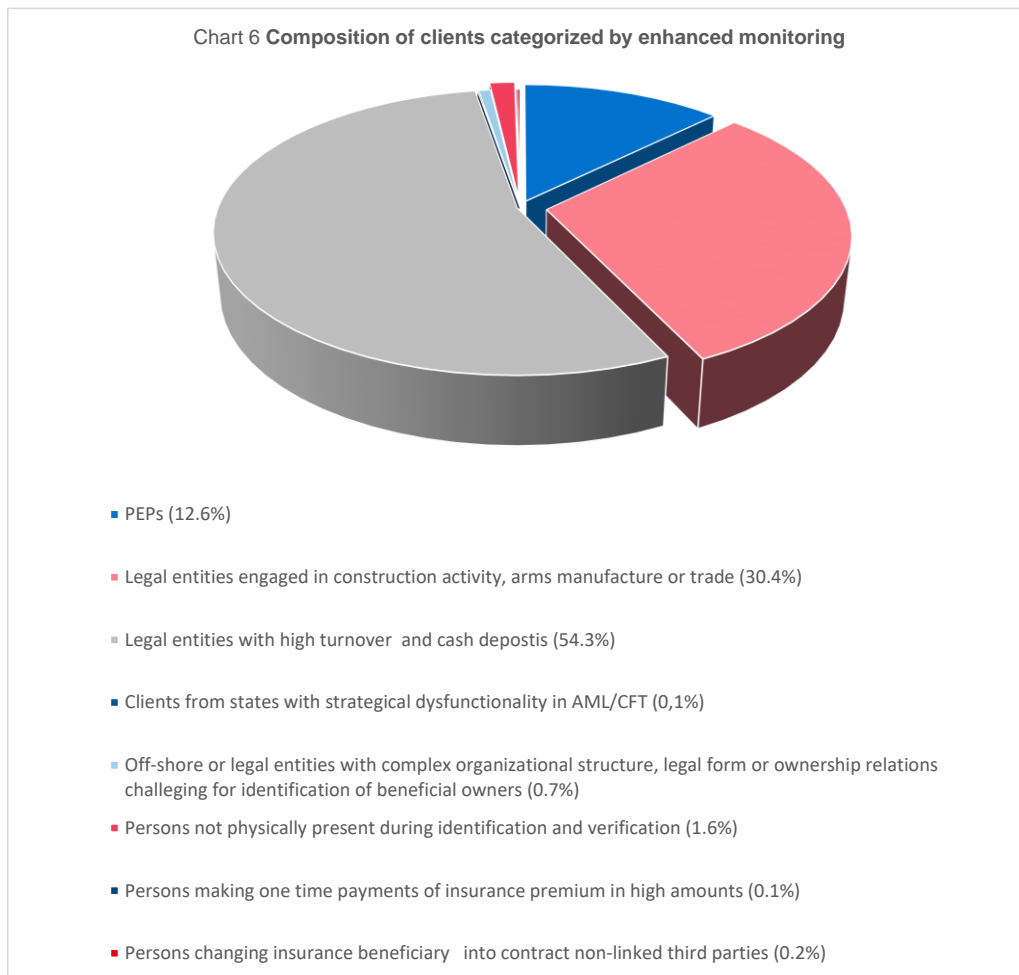
7 Insurance undertaking customer data

Life insurance is mostly contracted with natural persons, as illustrated in Chart 5.



Customers are classified in specific categories which are separately monitored from the standpoint of ML/TF prevention. These categories are: officials (PEPs), persons in the sector of construction, arms manufacture and trade; persons in sectors involving high cash turnover, persons from states identified as having strategically deficient ML/TF prevention systems; off-shore legal persons; persons whose beneficial owner is difficult to determine due to the organisational structure, legal form or complex and opaque ownership relations; persons who are not physically present when establishing and verifying identity; persons changing an insurance beneficiary by designating an unrelated third party (contract non-linked); persons contracting and/or making one-off payments of insurance premium in high amounts.

Some of the above categories were not encountered in the business practice of insurance undertakings, while other, that do exist, are subject to separate record keeping (regardless of an extremely small share in the total number of customers). These categories are shown below, according to percentage shares.



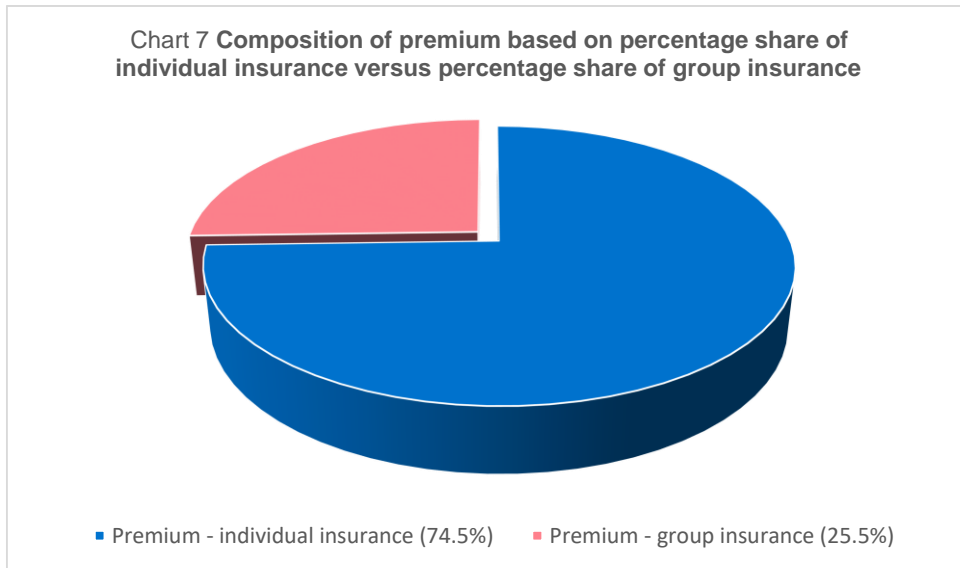
8 Data on insurance products and transactions

Life insurance contracts in 2023 show the following premium composition, according to the type of contract.

By type of life insurance, premium was generated in life insurance, annuity insurance, supplementary insurance in addition to life insurance, marriage insurance and birth insurance and life insurance linked to the units of investment funds. Insurance types that were not used are insurance with capital redemption and tontines. The prevalent types are life insurance and supplementary insurance in addition to life insurance, with five insurance undertakings having only these two insurance types in their portfolio.

The type of insurance subject to enhanced monitoring with respect to ML/TF prevention is life insurance linked to the units of investment funds. Three insurance undertakings had this type of products in 2023. One undertaking gave up on these

products earlier, while another three undertakings declared their intentions to introduce them in the coming period.



Life insurance contracts with premium exceeding EUR 15,000 in the dinar equivalent (the threshold which under the Law on the Prevention of ML/TF entails due diligence measures) were concluded by eight insurance undertakings. However, these contracts accounted for a very small share of the total number of contracts concluded – 0.44% on average, or above 1% in two undertakings only.

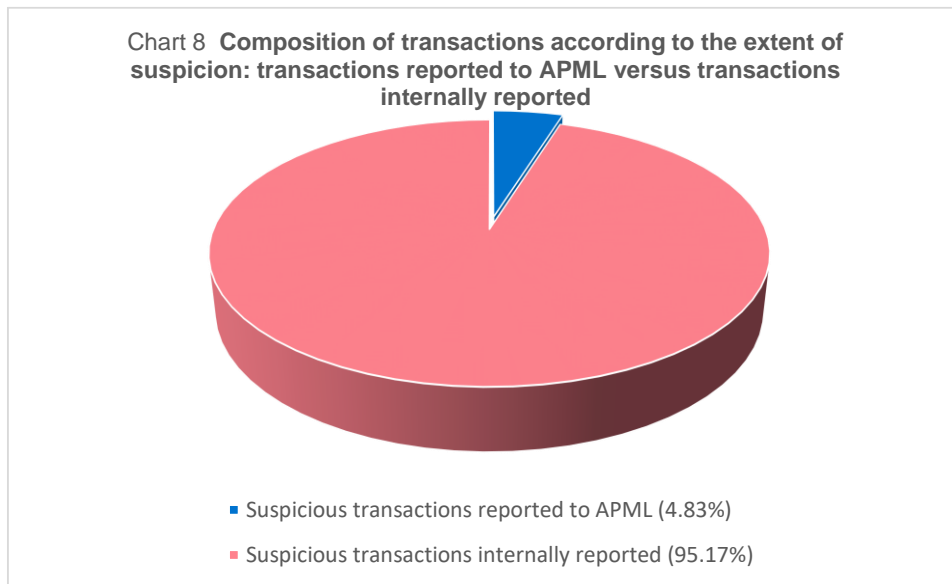
The average insurance period was 9.76 years (until expiration) or 6.58 years (until surrender). The cases of surrender of a policy or cash withdrawal immediately upon meeting the requirements in high premium policies were recorded only in four undertakings, with 20 policies surrendered and 19 withdrawal applications received. Insurance undertakings applied enhanced monitoring to these transactions, but no elevated risks were identified.

Typically, insurance business does not involve cash transactions. There was only one undertaking that carried such transactions in 2023, in a minimum amount, i.e. 1,711 transactions worth a total of RSD 4.3 mn, or 0.06% of the total value of transactions of that undertaking. Cash transactions can be made solely under one insurance product, i.e. payment of the policy activation fee of RSD 1,000.

9 Reporting to the AML Administration

The procedures for reporting a potential suspicion of ML/TF by insurance undertakings are regulated. All cash transactions equal to or above EUR 15,000 in the dinar equivalent at the annual level are reported to the AML Administration, as well as all suspicious transactions and persons, while other potentially suspicious transactions are internally reported to the AML/CFT compliance officer who keeps the relevant records and decides on future actions.

Based on data collected via the questionnaire, in the Serbian insurance business there were no transactions equal to or above EUR 15,000 in the dinar equivalent, so there were no reports to the AML Administration on this account. Suspicious transactions were either reported to the Administration or recorded as potentially suspicious internally, for further monitoring.



10 Internal audit and internal control of ML/TF risks in insurance undertakings

Insurance undertakings have set up internal controls systems for managing compliance risks, including also the protection from ML/TF risk.

In all insurance undertakings, AML/CFT compliance officers carried out the activities prescribed under the law and prepared reports on internal controls and the undertaken measures. In eight insurance undertakings, organisational units in charge of compliance implemented the appropriate forms of internal controls and certain system improvements were made accordingly.

In accordance with internal audit plans and programmes, internal audit covered the prevention of ML/TF in eight insurance undertakings and audit procedures were successfully completed in seven cases. Minor formal weaknesses were identified, mostly in the forms which record data relevant for the prevention of ML/TF, certain incompleteness in keeping records on staff training and incompleteness of documentation in some client files. Recommendations were issued regarding all identified weaknesses and insurance undertakings duly implemented them (the implementation is completed in some cases and underway in others, depending on internally specified deadlines).

11 Training of insurance undertaking staff and insurance sales agents

Insurance undertakings develop annual programmes of professional education, training and development of AML/CFT compliance officers and implement those programmes, combining themes and methods of training. In practice, insurance undertakings provide the same training to employees in insurance agency undertakings and insurance agents, and in some cases also to banks' employees engaged in insurance agency. In accordance with the prevalent regulations, the insurance undertaking is responsible for the work of its agents.

Training involved workshops and presentations, with the testing of acquired knowledge and was also conducted via electronic platforms. It was led by AML/CFT compliance officers, while some insurance undertakings formed education teams.

12 Prevention of terrorism and proliferation of weapons of mass destruction

Insurance undertakings are familiar with the Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction (RS Official Gazette, Nos 29/2015, 113/2017 and 41/2018), and this segment of their operations has been separately monitored since 2020. Actions and measures are internally regulated and some undertakings obtained special software for timely identification of designated persons listed by the United Nations Security Council and other international organisations to which the Republic of Serbia belongs. Special procedures are defined for limiting disposal of assets for some of these persons, in case of need. However, there were no such cases in practice.

13 Additional comments and proposals of insurance undertakings

Some insurance undertakings pointed to certain guidelines for the prevention of ML/TF risk which they received from their parent companies and put forward proposals for strengthening intra-sectoral cooperation and cooperation with the supervisor by more active communication and sharing of experiences.

14 Concluding notes

In general, the insurance sector in Serbia manages the ML/TF risk in a satisfactory manner and has fully implemented the new regulations in this area dating from 2017–2019, as well as all the amendments and updates in the years thereafter.

Apart from the ten undertakings licensed to carry out life insurance (four of which are engaged only in life and six in both life and non-life insurance), the formal obliged

entities under the regulations on the prevention of ML/TF risk in the area of insurance are also insurance brokers, when they broker the conclusion of life insurance contracts, while in the category of insurance agency undertakings and insurance agents there are no obliged entities under the regulations on the prevention of ML/TF (as explained above).

Insurance brokerage undertakings which brokered the conclusion of life insurance contracts also reported annually to the NBS about this segment of their operations, which was taken into account in the preparation of this analysis.

The NBS shall continue its supervisory activities with a view to ensuring ongoing compliance of operations of insurance undertakings and other insurance entities with the Law on the Prevention of ML/TF and/or the relevant bylaws.