

Ref.: 15/8/2/3

To: All insurers conducting life insurance business (life insurers) falling under the supervision of the Prudential Authority (PA) in terms of section 45 and item 8 of Schedule 1 read with Schedule 2 of Financial Intelligence Centre Act 38 of 2001 (Act No. 38 of 2001) (the FIC Act)

Directive issued by the PA in terms of section 43A(2) of the FIC Act

Requirement to obtain the identity of the beneficiaries of life insurance policies and incorporate the beneficiaries as a risk factor when determining the overall money laundering and terrorist financing risk rating of a client¹

Executive Summary

This Directive is issued by the PA in terms of Section 43A (2) of the FIC Act and serves to direct entities designated under item 8 of Schedule 1 to the FIC Act² to ensure that information is obtained in respect of the beneficiaries of life insurance policies, and that the money laundering and terrorist financing (ML/TF) risk associated with the beneficiary must be incorporated into the overall assessment of the ML/TF risk posed by the client.

1. Introduction

- 1.1 The PA is a supervisory body in terms of Schedule 1 read with Schedule 2 of the FIC Act for a *person who carries on a 'long-term insurance business' as defined in the Long-Term Insurance Act 52 of 1998.*
- 1.2 This Directive serves to direct life insurers to undertake specific activities in relation to certain aspects of customer due diligence (CDD) and ML/TF risk assessment insofar as it relates to beneficiaries of life insurance policies.

2. Directive

- 2.1 In addition to the CDD measures required to be undertaken in terms of the FIC Act, life insurers must obtain particulars of the beneficiary of life insurance policies, as soon as the beneficiary is identified, designated, or amended by the client.
- 2.2 CDD measures in respect of the beneficiary of the policy at onboarding requires that at a minimum, identification particulars should be obtained. This does not prohibit life insurers from applying a risk-based approach and requiring further identification and

¹Reference to the client is in terms of the FIC Act and for the purpose of this directive constitutes the policyholder.

² By virtue of section 12(1) of the Interpretation Act 33 of 1957, any reference in the FIC Act referring to provisions of the Long-term Insurance Act, 52 of 1998, will now refer to the relevant provisions in the Insurance Act 18 of 2017. The Financial Intelligence Centre is in the process of amending the current designation in item 8 of schedule 1 of the FIC Act to refer to the Insurance Act 18 of 2017.

verification information about the beneficiary nominated by the client to satisfy its understanding of the risk associated with the client. Obtaining information on the beneficiary of the policy in the context of the client must be in line with a life insurer's own risk management and commercial practice which may also enable practical benefits. An example of such benefit is that obtaining the detail of the beneficiary enables the institution to obtain information at onboarding or when there is a change in beneficiary which makes the overall process of paying out when the risk event arises easier to manage as information should already be available to assist in being able to contact the nominated beneficiary.

- 2.3 In respect of a beneficiary that is identified as a specifically named natural person, legal person or legal arrangement³, a ML/TF risk assessment and commensurate CDD measures must be conducted in accordance with the FIC Act on such named natural, legal person or legal arrangement, before actual pay-out⁴ of the policy proceeds to the beneficiary.
- 2.4 The requirement to conduct complete CDD measures is based upon the understanding that when a life insurer makes a pay out of a life insurance policy's proceeds, it is entering into a single transaction with the receiver of the funds. The receiver of the funds (beneficiary) becomes the client of the accountable institution, and the resulting FIC Act obligations come into effect.
- 2.5 The life insurer's clients would therefore be both the life insurance policy holder(s), and the beneficiary where an insured event has occurred, and the proceeds/benefits are claimed or become payable in terms of the life insurance policy and all FIC Act requirements pertaining to clients must be adhered to in respect of the beneficiary.
- 2.6 In respect of a beneficiary that is designated by characteristics or by class or by other means, CDD measures should be conducted by obtaining sufficient information concerning the beneficiary to satisfy the life insurer that it will, in accordance with the FIC Act, be able to *verify* the identity of the beneficiary before actual pay-out of the policy proceeds to the beneficiary.
- 2.7 During this due diligence process the life insurer may determine that a beneficiary who is a natural person, legal person or a legal arrangement presents a higher ML/TF risk, in which case the life insurer should undertake enhanced CDD measures over and above verification on the identity of the beneficiary before actual pay-out of the policy proceeds to the beneficiary.
- 2.8 The life insurer must thus take reasonable measures to determine whether the beneficiary and/or, where required, the beneficial owner of the beneficiary, is a domestic prominent influential person (DPIP) or foreign public prominent official (FPPO). Where higher risks are identified – including as a result of the beneficiary, life insurers should obtain approval from their senior management before the inception of the policy or during the course of the policy as the case may be, to conduct enhanced scrutiny on the business relationship with the policyholder, and to consider making a suspicious transaction report to the FIC.
- 2.9 The life insurer must consider taking reasonable measures to determine whether the beneficiary and/or, where required, the beneficial owner of the beneficiary is not a

³ Legal arrangements as per the FATF 40 Recommendations refer to trusts or other similar legal arrangements.

⁴ Pay-out in this instance also includes instances of a surrender, partial surrender.

person listed pursuant to a targeted financial sanctions list as envisaged in sections 28A and 26B of the FIC Act.

3. Regularisation

- 3.1 Every life insurer is expected to determine if the existing information held in respect of the beneficiary of a life insurance policy is up to date and accurate (identification information at a minimum for the purpose of onboarding).
- 3.2 As part of an effective overall risk management process each life insurer must ensure there are trigger events which will prompt a review of the information held on the beneficiary of the life insurance policy.

4. Effective date

- 4.1 This Directive is effective from date of publication on the website of the South African Reserve Bank.

5. Acknowledgement of receipt

- 5.1 Kindly ensure that a copy of this Directive is made available to your institution's external auditors. An acknowledgement of receipt must be provided, completed and signed by the chief executive officer of the institution and returned to the PA.

Fundi Tshazibana
Chief Executive Officer

Date: