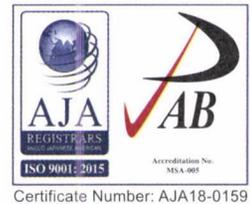




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## **INSURANCE COMMISSION ANTI-MONEY LAUNDERING (AML) AND COUNTER-TERRORISM FINANCING (CTF) RISK RATING SYSTEM FOR INSURANCE COMMISSION REGULATED ENTITIES (ICREs)**

### **SECTION I. Introduction**

The AML and CTF Risk Rating System (ACRRS) is a rating system to be used by Insurance Commission (IC) to understand whether the risk management policies and practices as well as internal controls of ICREs to prevent money laundering (ML) and terrorist financing (TF) are in place, well disseminated and effectively implemented. In doing so to individual ICREs, the IC will have an over-all understanding of its system's risk management policies and practices as well as internal controls relative to money laundering and terrorist financing prevention.

This ACRRS is a supervisory tool to ensure that all ICREs are assessed in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on entities exhibiting inefficiencies in Board of Directors (BOD) and Senior Management (SM) oversight and monitoring, inadequacies in their AML framework, weaknesses in internal controls and audit, and defective implementation of internal policies and procedures.

### **SECTION II. Overview**

Under the ACRRS, each ICRE is assigned a Composite Rating based on the assessment of four (4) components of an ICRE's framework and operations in the prevention of ML and TF. These component factors address the following:

- a. Efficient Board of Directors and Senior Management oversight;
- b. Sound AML/CTF policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program (MTPP) duly approved by the Board of Directors;
- c. Robust internal controls and audit; and
- d. Effective implementation.

Evaluation of the components takes into consideration, but not limited to, the ICRE's responses to various questions that are designed to comprehend its business operations as well as its risk profile. The responses will be assessed and on-site compliance checking will confirm their veracity and accuracy. Thereafter, a Component Rating will be assigned to reflect whether or not the ICRE possesses

any or all of the component factors stated above based on the combined results of the off-site evaluation of replies to the AML/CTF Compliance Questionnaire (attached as Annex "A") and on-site confirmation of their veracity and accuracy. The Component Ratings to be assigned ranging from 4 as the highest and 1 as the lowest are discussed in every component factor.

The Composite Rating generally bears a close relationship to the Component Ratings assigned. However, the Composite Rating is not derived by computing an arithmetic average of the Component Ratings. Each Component Rating is based on a qualitative analysis of that component and its interrelationship with the other components. The Composite Rating is assigned based on a 1 to 4 numerical scale. The highest rating of 4 indicates the strongest risk management system and most effective operational practices that entail the least degree of supervisory concern. The lowest rating of 1 on the other hand signifies the weakest risk management system and defective implementation that requires the highest degree of supervisory concern including the placement of the ICRE within the framework of prompt corrective action.

The assigned Composite and Component Ratings are disclosed to the ICRE's BOD and SM together with an indication of its level of compliance with relevant provisions of the Anti-Money Laundering Act of 2001 (AMLA), under Republic Act (R.A.) No. 9160, as amended by R.A. Nos. 9194, 10167, 10365 and 10927, the Terrorism Financing Prevention and Suppression Act (TFPSA), under R.A. No. 10168, their respective Implementing Rules and Regulations (IRR), Circular Letter (CL) No. 2018-48, as amended and other relevant IC and Anti-Money Laundering Council (AMLC) issuances.

### **SECTION III. Composite Rating**

A. The Composite Ratings are defined as follows:

#### **1. Composite Rating of 4**

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile is high and without cause for supervisory concern. The risk and control framework is clearly defined and fully compatible with the nature and complexity of the entity's activities. All or most of its component ratings are 4 with no component rating below 3. It is most capable of withstanding any risk associated with money laundering and is unlikely to be used as a money laundering conduit for the proceeds of unlawful activities.

#### **2. Composite Rating of 3**

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile is acceptable and with minimal supervisory concern.

The risk management and control framework is adequately defined and sufficiently compatible with the nature and complexity of the entity's activities. All or most of its component ratings are 3 with no component rating below 2. It can withstand any associated AML risks and there's low probability of it being used as a money laundering conduit for the proceeds of unlawful activities.

### 3. Composite Rating of 2

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile needs improvement and requires more than normal supervision. Risks are insufficiently controlled and mitigated, leaving too high a residual risk for the ICRE. The risk management and control framework is poorly defined or insufficiently compatible with the nature and complexity of the entity's activities. All or most of its component ratings are 2. It is vulnerable to money laundering risks and may be used as a money laundering conduit for the proceeds of unlawful activities.

### 4. Composite Rating of 1

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile need drastic and/or immediate improvement and requires close supervisory attention. Risks are not or inadequately mitigated and poorly controlled. The risk management and control framework is neither defined nor compatible with the nature and complexity of the entity's activities. All or most of its component ratings are 1. It is not capable of withstanding money laundering risks and may likely be used as a conduit for the proceeds of unlawful activities.

## B. Composite Rating Matrix

Composite Rating				
Numerical Rating	4	3	2	1
Adjectival Rating	Sound.	Adequately Sound.	Vulnerable.	Grossly Inadequate
Over-all Money Laundering (ML) and Terrorist Financing (TF) Prevention Risk Management Framework (relative to size, complexity and risk profile)	High level of risk management and control without cause for supervisory concern. The risk and control framework is clearly defined and fully compatible with the nature and complexity of the ICRE's activities.	Acceptable level of risk management and control with minimal supervisory concern. The risk management and control framework is adequately defined and sufficiently compatible with the nature and complexity of the ICRE's activities.	Risk Management and Control needs improvement and requires more than normal supervision. Risks are insufficiently controlled and mitigated, leaving too high a residual risk for the ICRE. The risk management and control framework is poorly defined or insufficiently compatible with the nature and complexity of the ICRE's activities	Risk management needs drastic and/or immediate improvement that requires close supervisory attention. Risks are not or inadequately mitigated and poorly controlled. The risk management and control framework is neither defined nor compatible with the nature and complexity of the ICRE's activities

Components <sup>1</sup> Rating	All or mostly 4 with no component rating less than 3	All or mostly 3 but no rating less than 2	All or mostly 2	All or mostly 1
Capacity to Withstand ML and TF Risks	Most capable of withstanding ML and TF risks and is unlikely to be used as money laundering conduit for the proceeds of unlawful activities.	Can withstand any associated ML and TF risk and there is low probability of it being used as money laundering conduit for the proceeds of unlawful activities.	Vulnerable to ML and TF risks and may be used as money laundering conduit for the proceeds of unlawful activities.	Not capable of withstanding ML and TF risks and may likely be used as a conduit for the proceeds of unlawful activities.

## SECTION IV. Component Rating

Each of the Component Rating descriptions is discussed separately on each component factor below.

### A. BOD and SM Oversight Component

#### 1. Description

The BOD and SM Oversight Component rating reflects the efficiency and capability of the BOD and SM oversight to identify, measure, monitor and control money laundering risks inherent in the ICRE's activities. It is recognized, however, that appropriate risk management practices vary considerably among ICREs depending on its size, complexity and risk profile.

The BOD shall be ultimately responsible in ensuring that the ICRE strictly comply with the requirements under the AMLA, as amended, TFPISA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances through adoption of an appropriate ML and TF prevention framework appropriate to the entity's corporate structure, operations and risk profile, which shall be embodied in its BOD-approved MTPP.

SM shall oversee the day-to-day management of the ICREs, ensure effective implementation of AML/CTF policies approved by the board and alignment of activities with the strategic objectives, risk profile and corporate values set by the board. SM shall establish a management structure that promotes accountability and transparency and upholds checks and balances.

The Compliance Officer shall be responsible for effectively managing the implementation of the MTPP, specifically its ML and TF prevention practices and procedures. The delegated authorities, together with the standards, internal control measures, risk tolerance levels should also be embodied in the MTPP.

<sup>1</sup> Consist of (i) Efficient BOD and SM Oversight; (ii) Sound AML policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program duly approved by the BOD; (iii) robust internal controls and audit; and (iv) effective implementation.