ALBANIAN FINANCIAL SUPERVISORY AUTHORITY

Anti-Money Laundering and Countering Financing of Terrorism

Supervision Manual
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1. Introduction & Background

1.1 Introduction

The Albanian Financial Supervisory Authority (AFSA) was established in 2006 as an independent public institution, and is responsible for the regulation and supervision of the non-banking financial system, and the operators of that sector. The AFSA reports to the Albanian Parliament.

The AFSA’s main areas of activity are regulation and supervision of the:

- Insurance market and its operators;
- Securities market and its operators;
- Private supplementary pensions market and its operators; and
- Other non-banking financial activities.

Its primary goals are the protection of consumers’ interests, the promotion of sustainability, transparency and reliability in the areas of insurance, securities and private supplementary pensions.

The AFSA is the supervisory authority for companies involved in life insurance or reinsurance, their agents and intermediaries, as well as retirement funds and investment funds. In order to accomplish its supervisory role, AFSA carries out periodic on-site inspections to verify the compliance of the above-mentioned entities with the obligations set forth in the provisions of the law, and reports to the responsible government authority about any suspicion, information or data related to money laundering or financing of terrorism for the activities falling under its jurisdiction.

The AFSA shall also take necessary measures to prevent an ineligible person from possessing, controlling and directly or indirectly participating in the management and administration or operation of an entity. It also cooperates with the Albanian General Directorate for the Prevention of Money Laundering (GDPML), and provides expert assistance in the identification and investigation of money laundering and terrorism financing, pursuant to the Memorandum of Understanding, dated May 8, 2015 between the AFSA and the GDPML, including cooperating in the drafting and distribution of training programs for money laundering and terrorism financing.

Albanian Law No. 9917, effective May 19, 2008 – “On the Prevention of Money Laundering and Financing of Terrorism” (the AML Law”), requires financial institutions to develop some form of anti-money laundering and terrorism financing program. The objectives of the AFSA for Anti-Money Laundering and Financing of Terrorism can be stated as:

- Building public confidence in Albania’s financial system and its capabilities to address and mitigate money laundering and terrorism financing concerns, and to protect the reputation of the financial system;
- Ensuring that insurers and the businesses they serve are aware of the money laundering and financial terrorism risks they face; and
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- Ensuring that insurers comply with the Albanian regulation on the prevention of money laundering and financial terrorism, in accordance with the AML Law.

1.2 Background

Subjects supervised by the Authority for the purpose of anti-money laundering and/or countering financing of terrorism (AML/CFT) are specified under Article 3, items e) and ë) of Law No. 9917, dated 19.05.2008 “On Anti-money laundering and countering financing of terrorism”, as well as Article 3 of the Regulation No. 58, dated 30.06.2015, on “On due diligence and enhanced due diligence by the subjects of law on anti-money laundering and countering financing of terrorism, as amended, such as:

- Stock exchanges and any other subject (agent, broker, brokerage company and other which exercises an activity for the issuance, advisory, brokerage, financing and any other service related to securities trading.
- Companies involved with the life insurance or reinsurance, agents, as well as pension funds.

AML/CFT Risk Factors

All subjects are exposed to the threat which might be used by criminals for their own benefit, with the purpose of ML/FT.

Insurance products can be used to facilitate money laundering. For example, currency can be used to purchase one or more life insurance policies, which may subsequently be quickly canceled by a policyholder (also known as “early surrender”) for a penalty1. The insurance company refunds the money to the purchaser in the form of a check. Insurance policies without cash value or investment features are lower risk, but can be used to launder money or finance terrorism through the submission by a policyholder of inflated or false claims to its insurance carrier, which if paid, would enable the insured to recover a part or all of the originally invested payments.

Other ways insurance products can be used to launder money include:

- Borrowing against the cash surrender value of permanent life insurance policies.
- Selling units in investment-linked products (such as annuities).
- Using insurance proceeds from an early policy surrender to purchase other financial assets.
- Buying policies that allow the transfer of beneficial interests without the knowledge and consent of the issuer (e.g., secondhand endowment and bearer insurance policies).
- Purchasing insurance products through unusual methods such as currency or currency equivalents.
- Buying products with insurance termination features without concern for the product’s investment performance.

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1 While the AML law does not apply directly to the insurance policies covering property, casualty or auto (as the AML risk is now deemed low), it is recommended that insurers apply some of the AML requirements to these customers.
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The insurance regulations only apply to a limited range of products – “covered products” – that may pose a higher risk of abuse by money launderers and terrorist financiers. A “covered product” for purposes of an AML/CFT compliance program includes:

1. A permanent life insurance policy, other than a group life insurance policy;
2. Any annuity contract, other than a group annuity contract; and
3. Any other insurance product with features of cash value or investment.

When an insurance agent or broker is required to establish an AML/CFT compliance program under a separate requirement under AML/CFT regulations (e.g., company or securities broker requirements), the insurance company generally may “rely” on that compliance program to address issues at the time of sale of the covered product. However, the company may need to establish specific policies, procedures and processes for its insurance sales in order to submit information to the insurance company for the insurer’s AML/CFT compliance.

Likewise, if a company, or agent of the company, detects unusual or suspicious activity relating to insurance sales, it can file a joint SAR on the common activity with the insurance company.

Investment funds or voluntary pensions can also be used to facilitate money laundering or financing of terrorism such as: the costumer requires to redeem or settle an investment within a short period of time after the initial investment or before the payment date without any certain reason, in particular in case of a financial loss or a high payment of the transaction fee; The frequent and unexpected establishment of similar business relationships, regardless of economic assessments such as entering into several voluntary pension fund membership agreements within a short period of time (with one or more management companies) and other.

Other cases of suspicious situations related to the securities market, are as follows: the transfer of funds to other financial or deposit institutions, other than those in which these funds were initially received especially where different countries are involved; The structuring of customer deposits is carried out in such a way that withdrawals or purchases of monetary instruments are made in a certain amount to avoid reporting or registration obligations; The customer uses personal/individual accounts for commercial purposes; payment is made for the third person with whom the customer has no tangible relations and other.

The types of misuse on all entities for ML/FT are dealt with in more detail in respective complaints annexed to regulation 58/2015.

2. Methodology

2.1 Overview of a Risk-focused AML/CFT Inspection Framework

To realize these objectives, AFSA has adopted a risk-based approach to AML/CFT supervised subjects. The objective of this Manual is to provide AFSA with a vital reference to supplement the training and

2 While the AML law does not apply directly to the insurance policies covering property, casualty or auto (as the AML risk is now deemed low), it is recommended that insurers apply some of the AML requirements to these customers.

3 Anti-Money Laundering and Countering Financing of Terrorism Risk Assessment Guidelines annexed to Regulation 58, dated 30.06.2015 “On Due Diligence and Enhanced Due Diligence measures by the subjects of law on money laundering and countering financing of terrorism ”, as amended.
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measures in place to ensure the country’s supervisory framework in terms of AML/CFT. This financial supervision manual is not intended to be a “one-size-fits-all” encyclopedia of ready-made solutions that will resolve all the day-to-day AML/CFT issues encountered in the supervision of insurers. Rather, its aim is to provide an appropriate level of guidance to aid in the creation of practical approaches/solutions to the myriad of AML/CFT the supervised subjects may encounter.

This manual fully incorporates and supports the guidance provided by the AFSA’s “Risk-focused Supervision Manual” (Insurance companies supervision manual and Pension Funds Supervision Manual), and refers to the latter where necessary.

2.2 Risk Mitigation

To mitigate money-laundering risks the insurance company, the management company of pension and investment funds, should adopt policies, procedures, and processes that include:

- The identification of higher-risk accounts.
- Customer due diligence, including Enhanced Due Diligence (EDD) for higher-risk accounts.
- Product design and use; types of services offered; and unique aspects or risks in target markets.
- Employee compensation and bonus arrangements that are related to sales and performance.
- Monitoring, including the review of early policy terminations and the reporting of unusual and suspicious transactions (e.g., a single, large premium payment, a customer’s purchase of a product that appears to fall outside the customer’s normal range of financial transactions, early redemptions, multiple transactions, payments to apparently unrelated third parties, and collateralized loans).
- Recordkeeping requirements.

A risk-focused AML inspection differs from the general approach only in that it takes into account the specificities of AML as it relates to the insurance industry, particularly the following:

- The scope of the AML reach, i.e. products subject to the AML Law (refer to section on “Background on Companies Qualifying for AML Inspection below);
- AML risk inherent to insurers, such as the AML risk of covered insurance products, size of the portfolio, previous enforcement action, number of currency transaction reports (STRs) and suspicious activity reports (SARs), etc.; and
- The level of the AML framework and controls already established by the insurers. For an overview of a typical AML framework, see “Elements of an AML Program” below.

Subjects Qualified for AML/CFT Inspection

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4 The FSA General Supervision Manual aims to support and promote a general approach to the emerging risks in the FSA’s leading industries. For a review of the advantages and issues that arise from this approach to risk monitoring, refer to the General Supervision Manual, www.amf.gov.al
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As a reminder, although the AML/CFT Law requires AML/CFT programs for all financial institutions, the Law only applies to those insurance companies offering “covered” products. These products include: (a) life insurance policies with any type of cash surrender value; (b) any annuity contract, other than a group annuity contract; and (c) any other insurance product with features of cash value or investment. Generally, life insurance and annuity products present the most significant money laundering and terrorist financing risks in the insurance industry because such products allow a customer to place large amounts of funds into the financial system with the potential of transferring those funds to another person or entity, thus masking its true origin.

Each insurance company issuing or underwriting a covered product must develop and implement an AML/CFT program reasonably designed to prevent the insurance company from being used to facilitate money laundering or the financing of terrorist activities. The insurer must implement a company-wide program, i.e., a program that does not only apply to the insurer’s covered products.

Elements of an AML/CFT Program – “Four Pillars”

The minimum components of the AML/CFT program, also known as the “Four Pillars,” are as follows:

- **Policies, Procedures and Internal Controls** – senior management/Board and other responsible parties, must clearly communicate its policies and practices to staff and third parties on an ongoing basis, in order to develop a “culture” of compliance. Policies and procedures must be fluid in order to stay current with legal and industry developments.

- **Designation of a Compliance/AML/CFT Officer, or other responsible persons** – responsible for implementing and monitoring compliance of its AML/CFT program, including the activities of the stock exchange and any other subject related to the securities market, insurance or reinsurance companies, as well as intermediaries and pension funds. The compliance officer must ensure the program is updated as necessary and that the appropriate persons are educated and trained.

- **Training for appropriate persons** – including the compliance officer. Employees with responsibility under the program must be trained in the requirements of the program, and money laundering risks generally, so that “red flags” for suspicious activity associated with covered products can be identified. The subject that offers more complex products may need to offer more comprehensive training programs for employees. The subject should also ensure that their agents (such as banks and attorneys) are adequately trained on the risks of money laundering and terrorist financing.

- **Independent testing/auditing** – testing the program on a periodic basis to ensure that it complies with the requirements of the applicable rules and regulations, and that the program functions as designed, including testing to determine compliance by all the subjects mentioned above with their obligation under the program.

Beyond these minimum requirements, insurance companies are given the flexibility to design their programs to meet the specific risks associated with their particular business. The program must be in writing, approved by senior management and Board, and made available to the AFSA, the GDPML, or their designee, upon request.

The program must incorporate policies and procedures and internal controls based on the insurance subject’s risk assessment of the money laundering and terrorist financing risks associated with its covered products. An insurance subject’s assessment of customer-related information, including method of payment, is a key component of an effective AML/CFT program. The subject must also implement policies...
and procedures that enable it to detect, monitor, and report suspicious activity related to potential money laundering and terrorist financing transactions.

An insurance company is also responsible for integrating its agents and brokers into its AML/CFT program to:

1. Obtain relevant customer-related information from them;
2. Use that information to assess the money laundering risks presented by its business;
3. Identify any “red flags” that may indicate suspicious activity.

2.3 AML/CFT Supervision Lifecycle

The AML/CFT inspections carried out by AFSA may be seen in a model view as a “lifecycle,” through which the different steps and procedures are repeated on a regular basis, thus generating consistent performance and result improvements at the end of each new cycle:

Below follows a presentation of the supervision lifecycle of the insurer, which is similar to the lifecycle of the supervision of the other subjects⁵:

<table>
<thead>
<tr>
<th>Insurer inspection cycle</th>
<th>Description of process steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Inspection plan &amp; Communication</td>
<td>• Based on the AML Risk Profile and methodology, define inspection plan</td>
</tr>
<tr>
<td>B. Pre on-site</td>
<td>• Communicate plan internally</td>
</tr>
<tr>
<td>C. Execute on-site</td>
<td>• Gather information and documents</td>
</tr>
<tr>
<td>D. Reporting</td>
<td>• Analyze information</td>
</tr>
<tr>
<td></td>
<td>• Refine risk profile, update risk matrix</td>
</tr>
<tr>
<td></td>
<td>• Plan on-site, Management review and approval of inspection plan</td>
</tr>
<tr>
<td>E. Remediation</td>
<td>• Perform field work (interviews, sample checks, system review etc.)</td>
</tr>
<tr>
<td></td>
<td>• Discuss findings with insurer</td>
</tr>
<tr>
<td></td>
<td>• Complete inspection file</td>
</tr>
<tr>
<td></td>
<td>• Management review of inspection file</td>
</tr>
<tr>
<td></td>
<td>• Draft internal inspection report</td>
</tr>
<tr>
<td></td>
<td>• Send Management letter to company</td>
</tr>
<tr>
<td></td>
<td>• Reply from company</td>
</tr>
<tr>
<td></td>
<td>• Insurer remediates</td>
</tr>
</tbody>
</table>

Insurer Inspection cycle⁶
A. Inspection plan & Communication
B. On-site preparation
C. On-site implementation
D. Reporting

⁵ Pursuant to Article 3, Regulation 58, dated 30.06.2015 "On Due Diligence and Enhanced Due Diligence measures by the subjects of law on money laundering and countering financing of terrorism ", as amended.

⁶ The inspection cycle for life insurance companies is similar with the inspection cycle and other entities under AFSA supervision, management company (investment funds, voluntary pension funds), depository, tied agent, custodian and other.
3. **PHASE I: Risk Assessment, Pre-Inspection Information Gathering and Preliminary Analysis**

3.1 **Pre-Inspection Information Gathering**

**Objective:** Gather all documents and information that are relevant to assess the company’s AML/CFT risks, and then perform a preliminary analysis in order to define the scope, and to plan the on-site inspection.

Through the pre-inspection request letter and questionnaire to the subject, obtain the following documents and information:

**Insurer’s AML/CFT Risk Assessment**

**Objective:** Obtain and assess the AML/CFT risk profile of the subject and evaluate the adequacy of the subject’s AML/CFT risk assessment process.

1. Obtain and review the subject’s AML/CFT risk assessment. Determine whether the subject has included all risk areas, including size, geographic locations, partners/intermediaries/distribution channels (e.g., brokers, banks, agents), new/existing products, services, or customers, entities, cross-border activity/complexity, customer base volatility, Gross Written Premium (“GWP”) from high-risk customers (e.g. politically exposed persons or “PEPs”). Determine whether the subject’s process for periodically reviewing and updating its AML/CFT risk assessment is adequate.

2. If the subject has not assessed its AML/CFT risks, it should be advised to do so. As a replacement, the Inspector may assess the subject’s AML/CFT risks by obtaining the following information:
   - Number of employees;
   - Geographic locations;
   - Total number of customers/consumers and policies\(^7\), total volume of the insurer’s entire Gross-written premium (GWP);
   - Number of policies\(^8\) and total GWP per relevant product (i.e., covered products subject to the AML/CFT Law);
   - New products introduced by the subject since the last AML/CFT inspection;
   - Number of customers not domiciled in Albania, per country;
   - Volume and number of policies with a risk/transactions located outside of Albania;
   - Indications on partners/intermediaries/distribution channels;

3. Further information taken into consideration for the AML/CFT risk assessment for the subject:
   - Findings (AML/CFT related) raised by the insurer’s internal and external auditors since last AML/CFT inspection by AFSA;

\(^7\) Only for the life insurance companies

\(^8\) Only for the life insurance companies/agents
Findings raised by the General Directorate since last AML/CFT inspection by AFSA;

Number of suspicious activity reports (SARs) or suspicious transaction reports (STRs) filed since the last AML inspection by AFSA, and GWP involved in these cases;

Number of cash transaction reports or CTRs (i.e. cash transaction reports according to the AML Law) filed since last AML/CFT inspection by AFSA, and GWP involved in these cases;

Number of Compliance staff dedicated to AML/CFT (full-time and/or part-time).

4. Inspectors should document and discuss the subject’s AML/CFT risk profile and mitigating measures taken, as well as any identified deficiencies in the subject’s AML/CFT risk assessment process with subject’s management and the AML/CFT Compliance Officer.

3.2 AML/CFT framework of the subject

Objective: Gather all documents and information that are relevant to assess the level of the subject’s AML/CFT framework (i.e. policies, procedures and processes to mitigate the subject’s AML/CFT risks, see below), perform a preliminary analysis in order to define the scope and to plan the on-site inspection.

Through the pre-inspection request letter and questionnaire to the subject, obtain the following documents and information:

- AML/CFT Policies and Procedures;
- Responsibilities of the Management, the business lines and Compliance;
- Internal AML/CFT training/education performed within the last 12 months;
- External AML/CFT training (e.g., seminars, conferences, auditor sponsored events etc.) attended within the last 12 months;
- Description of risk categories in terms of customers and transactions. Customers involving higher risk must be defined according to the AML/CFT Law; the subject may define further risk categories according to its risk assessment;
- List or description of AML/CFT controls pertaining to the verification of the customer’s identity, and establishment of the beneficial ownership;
- List or description of AML/CFT controls pertaining to the identification of high-risk customers and high-risk transactions (e.g. transaction monitoring);
- Description of the process pertaining to enhanced due diligence (See, Article 7 of the AML/CFT Law) i.e., enhanced Know Your Customer ("KYC") (i.e. for high-risk customers according to Article 8 of the AML/CFT Law and high-risk transactions according to Article 9 of the AML/CFT Law), and indication of information gathered from customers in terms of enhanced KYC;
- List or description of AML/CFT monitoring performed by Compliance;
- Description of documentation and record retention in terms of AML/CFT;
- Description of internal AML/CFT reports (e.g., management/Board reports) issued on a regular basis.

3.3 Subject’s Risk Mitigation Framework
Objective: Gather all documents and information that are relevant to assess the level of the insurer’s measures (framework) taken to mitigate money-laundering risks. To mitigate money-laundering risks, the subject should adopt policies, procedures, and processes that include:

- The identification of higher-risk accounts;
- Customer Due Diligence, including Enhanced Due Diligence ("EDD") for higher-risk accounts;
- Training of employees;
- Product design and use, types of services offered, and unique aspects or risks in target markets;
- Following Article 6, paragraph 1 of the AML/CFT Law, procedures pertaining to the verification of money laundering and terrorism financing risks prior introduction of new products;
- Employee compensation and bonus arrangements that are related to sales and performance;
- Monitoring, including the review of early policy terminations and the reporting of unusual and suspicious transactions (e.g., a single, large premium payment, a customer’s purchase of a product that appears to fall outside the customer’s normal range of financial transactions, early redemptions, multiple transactions, payments to apparently unrelated third parties, and collateralized loans);
- Recordkeeping requirements.

4. PHASE II: Scope and Inspection Planning

Objective:

- Identify the subject’s AML/CFT risks;
- Develop the inspection scope; and
- Document the plan.

This process includes determining inspection staffing needs and technical expertise, and selecting inspection procedures to be completed.

To facilitate the inspector’s understanding of the company’s risk profile and to adequately establish the scope of the AML/CFT inspection, the inspector should complete the following steps in conjunction with the review of the company’s AML/CFT risk assessment:

- Review prior inspection reports, related work papers, and management’s responses to any previously identified issues with AFSA or the General Directorate of AML/CFT; identify completed inspection procedures; obtain contact information; identify reports and processes the subject uses to detect unusual activity and; identify previously noted higher-risk operations of the subject. In addition, contact the insurer’s Head of Compliance and/or Management as appropriate to discuss the following:
  - AML/CFT risk assessment;
  - AML/CFT compliance program;
  - Changes in the company’s AML/CFT policies, procedures and controls;
Follow-up on previous issues identified by AFSA and/or the General Directorate of AML/CFT;

- Changes in the Insurer’s product landscape and figures regarding clients, GWP, high-risk customers, etc.;

- Suspicious activity monitoring and reporting systems; and

- Level and extent of automated AML/CFT systems.

For the above topics, refer to the appropriate overview and inspection procedures sections in the Manual for guidance.

- Develop a list of AML/CFT items to be incorporated into the integrated inspection request letter. If the AML/CFT portion of the inspection is a stand-alone inspection, send the request letter to the Compliance Officer or designated officer of the subject. Review the request letter documents provided by the subject. Refer to “Management Letter Items” in Section Phase IV, page 33.

- Review correspondence between the subject and the AFSA, if not already completed by the inspector in charge or other assigned inspection personnel. In addition, review correspondence the subject has received from, or sent to, other regulatory and law enforcement agencies relating to AML/CFT compliance. Communications, particularly those received from the General Directorate of AML/CFT may document matters relevant to the inspection, such as the following:
  - Filing errors for SARs and CTRs received electronically from the General Directorate of AML/CFT;
  - Civil money penalties issued by or in process from the General Directorate of AML/CFT;
  - Law enforcement subpoenas or seizures.

- Review SAR and CTR information obtained from the AML/CFT reporting database within the AFSA. Request relevant data from the General Directorate of AML/CFT if feasible. The number of SARs and CTRs filed should be obtained for a defined time period, as determined by the inspector. Consider the following information and analyze the data for unusual patterns:
  - Volume of activity, and whether it is commensurate with the customer’s occupation or type of business;
  - Number and dollar volume of transactions involving higher-risk customers;
  - Volume of SARs and CTRs in relation to the subject’s size, asset or deposit growth, and geographic location.

Inspectors should not criticize a subject solely because the number of SARs or CTRs filed is lower than SARs or CTRs filed by “peer” subjects. However, as part of the inspection, inspectors must review significant changes in the volume or nature of SARs and CTRs filed and assess potential reasons for these changes.

- Review internal and external audit reports and workpapers for AML/CFT compliance, as necessary, to determine the comprehensiveness and quality of audits, findings, and management responses and corrective action. A review of the independent audit’s scope, procedures, and qualifications will provide valuable information on the adequacy of the AML/CFT compliance program.
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- **Sanctions:** While sanctions regulations are not part of the AML/CFT evaluation, compliance with applicable sanctions is frequently included in AML/CFT inspections. *Note:* Albania generally follows the sanctions program of the United Nations. While it is not the AFSA’s primary role to identify sanctions violations, it will evaluate the sufficiency of a subject’s implementation of policies, procedures, and processes to ensure compliance with Albanian and UN sanctions\(^9\) laws and regulations. To facilitate the inspector’s understanding of the subject’s risk profile and to adequately establish the scope of the sanctions inspection, the inspector should complete the following steps:

  - Review the subject’s sanctions risk assessment. The risk assessment, which may be incorporated into the subject’s overall AML/CFT risk assessment, should consider the various types of products, services, customers, entities, transactions, and geographic locations in which the company is engaged, including those that are processed by, through or to the subject to identify potential sanctions exposure.

  - Review the subject’s independent testing of its sanctions compliance program.

  - Review correspondence received regarding sanctions compliance and, as needed, the civil penalties area on the UN’s sanctions Website. [http://www.un.org/sc/committees/list_compend.shtml](http://www.un.org/sc/committees/list_compend.shtml) to determine whether the subject had any warning letters, fines, or penalties imposed by sanctions since the most recent inspection\(^{10}\).

*Note:* In addition to the above, at larger, more complex subjects, inspectors may complete various types of inspections throughout the supervisory plan or cycle to assess sanctions compliance. These reviews may focus on one or more business lines.

On the basis of the above inspection procedures, and in conjunction with the review of the subject’s AML/CFT risk assessment, develop an initial inspection plan. The inspector should adequately document the plan, as well as any changes to the plan that occur during the inspection. The scoping and planning process should ensure that the inspector is aware of the subject’s AML/CFT compliance program, sanctions compliance program, compliance history, and risk profile (i.e., products, services, customers, entities, transactions, and geographic locations).

As necessary, additional core and expanded inspection procedures may be completed. While the inspection plan may change at any time as a result of on-site findings, the initial risk assessment will enable the inspector to establish a reasonable scope for the AML/CFT review. In order for the inspection process to succeed, inspectors must maintain open communication with the subject’s management and discuss relevant concerns as they arise.

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9. This will be done as part of the AFSA’s evaluation of the company’s know your customer and due diligence procedures

10. The UN sanctions do not apply directly to our internal system, but a Council Minister may decide to make them enforceable. During the transit period from designation to approval of CMD the Minister of Finance may give blocking orders. For more details refer to Law no. 157/2013 “On the measures against terrorism financing” OFAC sanctions site: [http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/fuzzy_logic.aspx](http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/fuzzy_logic.aspx)
AFSA shall conduct a complete AML/CFT inspection. The AML/CFT Inspection of an insurer issuing covered products should include the following procedures to address anti-money laundering compliance.

The objective of the fieldwork is to assess:

1. The adequacy of the subject’s AML/CFT compliance framework;
2. The overall adequacy and effectiveness of the AML compliance program, including policies, procedures, and processes. Typically, this evaluation will include an explicit statement about the AML/CFT compliance program's overall adequacy, effectiveness and compliance with applicable regulatory requirements;
3. Whether an AML/CFT risk assessment was appropriately established;
4. Whether appropriate AML/CFT reporting is performed;
5. Whether recordkeeping requirements are met;
6. The adequacy of CDD policies, procedures, and processes and whether they comply with AML/CFT Law and internal requirements.
7. Whether personnel adhere to the company’s AML/CFT policies, procedures, and processes.
8. Whether appropriate transaction testing (monitoring) is performed, with particular emphasis on higher-risk operations (covered products, services, customers, and geographic locations);
9. Whether the subject is conducting AML/CFT training for appropriate personnel, and procedures are in place to ensure appropriate third parties (brokers, agents and banks) are trained, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking. The subject should have records to verify AML/CFT training is being conducted and employees have completed the training;
10. The integrity and accuracy of Management Information Systems (MIS) used in the AML/CFT compliance program. MIS includes reports used to identify large currency transactions, suspicious transactions, aggregate daily currency transactions, funds transfer transactions, and analytical and trend reports; and
11. Tracking of previously identified issues and deficiencies, and verification that management has corrected them.

If an automated system is not used to identify or aggregate large transactions, determine whether the audit or independent review includes a sample test check of appropriate documentation to determine whether suspicious or unusual transactions are accurately identified and reported.

5.1 AML/CFT Compliance Framework and Policy

Objective: Assess the adequacy of the subject’s AML/CFT compliance framework. Determine whether the subject has developed, administered, and maintained an effective framework for compliance with the AML/CFT and all of its implementing regulations.

Inspection Procedure

An AML/CFT inspection of an insurer issuing covered products should include the following procedures to address anti-money laundering:
1. Conduct a brief interview of the Compliance Officer, or other person, responsible for implementing and monitoring compliance with the company’s AML/CFT program. If the Compliance Officer delegates certain responsibilities to other employees, it is appropriate to also conduct interviews with them. *(See page 19, AML/CFT Compliance Officer)*

2. Obtain a copy of the written AML/CFT program and verify that it includes the necessary components discussed above. Also verify that both the Supervisory Board and senior management have approved the program.

3. Obtain copies of the subject’s risk assessment, independent test plans and the results of the testing performed; review for any important issues. Management is encouraged to document its risk assessment in writing in order to provide a clear basis for the subject’s policies and procedures. Inspectors should consider whether the company’s process for periodically reviewing and updating its risk assessment is adequate.

4. A subject’s AML/CFT program must be commensurate with the risks posed by the size of subject, by the nature and volume of the covered products its offers, and by the distribution channels it uses to market the covered products. In its risk assessment, each subject should identify and assess the money laundering risks that may be associated with its risk categories (i.e., unique combination of covered products, services, customers and their geographic locations, distribution channels, internal controls, etc.). The subject should conduct a more detailed analysis of these categories as they apply to the subject in order to assess the risk associated with each risk category.

5. The inspector should review the risk assessment for completeness to determine whether management has considered and adequately assessed all the appropriate risk categories. The rationale for the frequency of independent testing should be included in the risk assessment.

6. Independent Testing: An outside consultant or accountant may be or have been appointed to perform the testing of the company’s AML framework. The primary purpose of the independent testing is usually to determine the adequacy of the subject’s AML/CFT program, including whether it is operating in compliance with the requirements of the AML/CFT Law and the subject’s own policies and procedures. The scope and quality of the independent review(s) may provide insight into the effectiveness of the subject’s AML/CFT program.

   A single employee of the insurance company, or a committee comprised of more than one employee, may perform the independent testing, as long as the tester is not the compliance officer or otherwise involved in administering the program. However for smaller companies it is recommended that they retain an outside consultant, auditor or accountant to perform the testing.

Review the subject’s board/management approved written AML/CFT compliance policy to ensure it contains the following required elements:

- “Tone at the top”, i.e., general policy statement by senior management and the Board about the company’s principles in the fight against money laundering and terrorist financing;

- A definition of responsibilities (e.g. Supervisory Board, CEO, AML Compliance Officer as specifically designated person or persons responsible for managing AML/CFT compliance)

11 Compare also to Article 11, paragraph 1a of the AML Law
A system of internal procedures and controls to ensure ongoing AML/CFT compliance, in particular with regard to:
- Articles 4 – 5: Due Diligence and required documents for the customer’s identification
- Articles 8 – 9: Risk categorization in relation to customers and transactions
- Article 7: Enhanced due diligence
- Monitoring by the AML/CFT Compliance Officer
- Articles 12 – 15: Reporting obligations
- Article 16: Obligation on maintain data

Training and periodic education for appropriate staff;
Appropriate AML/CFT reporting to the Supervisory Board or senior management.

5.2 Risk Assessment link to the AML/CFT Compliance Framework
Besides the obligation to implement policies, Article 6 of the AML/CFT law also provides that insurers must incorporate money laundering and financing of terrorism risks arising from the development of new products, business practices, delivery channels and the use of new or developing technologies. On the basis of inspection procedures completed in the scoping and planning process, including the review of the risk assessment, determine whether the subject has adequately identified the risk (products, services, customers, entities, and geographic locations) and incorporated the risk into the AML/CFT compliance program.

5.3 Responsibilities
The internal AML/CFT Policy should clearly set out the responsibilities of the relevant functions, in particular with regard to:

- The Supervisory Board or senior management, typically having the ultimate responsibility in terms of AML, including, for example:
  - Ensuring that the policy is implemented and communicated;
  - Appointing a General or AML/CFT Compliance Officer, depending on the size of the company and risk;
  - Making available resources to ensure compliance with the AML/CFT Law and the AML/CFT Policy;
  - Ensuring that management and employees are properly trained/educated;
  - Taking appropriate measures in cases of non-compliance with the requirements of the AML/CFT Law and the AML Policy;
  - Agreeing on exceptions to the AML/CFT Policy.

- The business functions (such as underwriting, customer administration, claims/surrender), typically having the responsibility to execute AML/CFT controls in the first line of defense, in particular with regard to:
- Identification and verification of ownership benefits of customer; Identification of customers and transaction with enhanced risks;
- Enhanced due diligence; and
- Documentation requirements.

- The AML Compliance function (AML/CFT Compliance Officer), typically having the responsibility to:
  - Support the business and management in implementing the AML Policy and related processes and controls;
  - Identify potentially conflicting laws and regulations;
  - Initiate the company’s periodic risk assessment;
  - Provide advice, guidance and training to the business functions for the design and implementation of AML/CFT controls;
  - Monitor compliance with the provisions of the AML/CFT Policy;
  - Report relevant cash transactions as well as suspicious cases according to Article 12 of the AML/CFT Law.

- Internal Audit, typically has the responsibility of making independent testing and evaluation of the company’s design, implementation and execution of the AML/CFT risk assessment, framework, controls, monitoring and reporting.

5.4 AML/CFT Compliance Officer

Objective: Evaluate whether the function of the AML/CFT Compliance Officer is clearly defined and the duties are appropriately executed.

Inspection Procedure

1. Conduct a brief interview with the compliance officer responsible for implementing and monitoring compliance with the subject’s AML/CFT program. If the compliance officer delegates certain responsibilities to other employees, it may be appropriate also to conduct interviews with them. Topics of the interview should include, although not be limited to:
   - Oversight of the day-to-day compliance with AML/CFT requirements,
   - Contents of the subject’s AML/CFT program, risk assessment, training program, and independent test plans, and
   - How the subject monitors and controls the activity of its agents/employees.

2. The inspection should also cover the role of the AML/CFT Compliance Officer with regard to detecting, monitoring and reporting suspicious activity. This includes the subject’s decision-making policies for reporting suspicious activity when “red flags” are identified.

3. Finally, the inspector should make sure the subject has procedures in place to report cash transactions at the amount determined in the provisions of the AML/CFT Law.

Further factors to review:
1. Determine whether the board of directors has appointed a person or persons responsible for the overall AML/CFT compliance program. Determine whether the compliance officer has the necessary authority and resources to effectively execute all duties.

2. Assess the competency of the compliance officer and his/her staff, as necessary. Determine whether the AML/CFT compliance area have sufficiently staff for the subject’s overall risk level (based on products, services, customers, entities, and geographic locations), size, and AML/CFT compliance needs. In addition, ensure that no conflict of interest exists and that staff has been given adequate time to execute all duties.

3. During the interview, the inspector should note if the compliance officer: (a) is not enough sincere, (b) has provided false or misleading information, (c) appears to lack of understanding of the subject’s risks of money laundering activities, or (d) has omitted material information related to anti-money laundering that should be disclosed to the General Directorate for further consideration.

5.5 Training

Objective: Determine whether the important elements of an AML/CFT training program are adequately addressed in the training program and materials, and whether training has been executed and documented, and if non-attendance has been followed up.

Preliminary remarks

The following elements are typically included in an AML/CFT training program:

1. The importance the Supervisory Board and senior management place on ongoing education, training, and compliance.
2. Employee accountability for ensuring AML/CFT compliance.
3. Comprehensiveness of training, considering specific risks of individual business lines.
4. Training of staff from all applicable areas of the subject.
5. Definition of the required frequency of attending AML/CFT training.
6. Documentation to verify attendance records and training materials.
7. Ongoing training
8. Coverage of subject policies, procedures, processes, and new rules and regulations.
9. Coverage of different forms of money laundering and terrorist financing as it relates to identification and examples of suspicious activity.
10. Penalties for noncompliance with internal policies and regulatory requirements.

All employees should follow at least a basic AML/CFT training in order to understand the principles of AML/CFT, AML/CFT legislations and the internal AML/CFT Policies, as well as to whom to address questions and issues. Exposed functions must follow a full/enhanced AML/CFT training in order to understand responsibilities and content of AML/CFT controls and procedures. Typically, AML/CFT training

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Inspectors should check to see if management has implemented penalties for employees who fail to take the required training timely. Such penalties may include, for example, reduced bonuses or pay raises.
is concluded with an appropriately defined test to be successfully concluded by the participants (i.e., a passing grade must be received by the participant, or the test must be taken again).

Attendance at AML/CFT training at the conclusion of a test must be recorded in order to identify whether any employees have not attended the training or not concluded the test. Non-attendance or test failure must be followed up to assure that those employees have received training or have completed the test successfully.

**Inspection Procedure:**

Conduct a brief interview for providing AML/CFT training and review training programs and materials, as well as documentation of attendance. Evaluate whether the AML/CFT training provided was appropriate, and whether attendance was duly documented and followed up.

5.6 Due Diligence and required documents for the customer’s identification

**Objective:** Determine whether customer and transaction due diligence procedures have been appropriately designed, implemented and are executed in compliance with the AML/CFT Law.

**Inspection Procedure:**

1. Conduct interviews with the relevant business, quality assurance and compliance functions. The interviews should cover the design of and transaction customer due diligence procedures and controls, their implementation and execution;

2. Review functionalities of systems assisting the employees in their execution of and transaction customer due diligence controls;

3. From a base of 20,000 relevant customers (i.e., customer relationships that are subject to the Albanian AML/CFT Law), pull a total of 50 customer random files, and an additional 10 random customer files per additional 10,000 customer base as selected by the inspector. Verify whether the documents and information necessary according to Article 4 of the AML Law have been obtained and registered at the time required by the law.

The customer and transaction due diligence procedures and controls should basically cover the provisions of Article 4 of the AML/CFT Law, for example:

- The procedures are executed prior to establishing a business relationship;
- Customer is a natural person, a legal entity or a trust;
- The information required by Article 5 of the AML/CFT Law (e.g., for natural person's names, date of birth, place of birth, place of residence, employment etc.)
- Beneficial owners are identified, and the identities of beneficial owners are verified;
- Proxies or powers of attorney must be understood and documented;
- The ownership and control structure (in case of legal persons or legal arrangements) must be understood and documented;
- Documents verifying identities (e.g., copies of passports or legal documents) must be registered.

5.7 Risk categorization with regard to customers and transactions
Objective: Assess whether the subject has sufficiently developed customer and transaction risk categories, and whether, according to these categories, customers and transactions with enhanced risks are identified for the purpose of enhanced due diligence.

Preliminary remarks:

According to Article 4/1(e) of the AML/CFT Law, the subject must conduct continuous monitoring of consumers/customers relationships, including analysis of transactions executed in the course of the relationship, to ensure they are consistent with the insurer’s knowledge of the subject customer, nature of business, risk profile and source of funds.11

According to Article 7 of the AML/CFT Law, due diligence for business relationships and transactions posing enhanced money laundering risks shall include additional measures (besides the level of due diligence executed for relationships and transactions involving a low level of risks). The AML/CFT Law stipulates that insurers must, as a minimum, define the following categories of customers posing enhanced money laundering risks:

- Politically exposed persons ("PEPs"), see Article 8, paragraph 1(f), AML/CFT Law;
- Non-profit organizations (Article 8, paragraph 3, AML/CFT Law);
- Non-resident customers (Article 8, paragraph 4, AML/CFT Law);
- Customers residing or carrying out business activities in countries that do not follow relevant FATF standards on the prevention and fight against money laundering (Article 8 paragraph 5, AML/CFT Law).

Regarding transactions, the AML/CFT Law requires an entity to:

- Pay particular attention to all complex transactions, i.e. transactions with large and unusual values that have no apparent economic or legal purpose (Article 9, paragraph 1, AML/CFT Law Nr. 9917);
- Verify and exercise enhanced due diligence to business relationships and transactions with all types of the customers residing in or carrying out their activity in countries which do not apply or partially apply the relevant international standards, for the prevention and fight against money laundering and financing of terrorism (Article 8 paragraph 5, AML/CFT Law Nr. 9917).

The subject may define further categories of customer relationships and transactions with enhanced risks, but must develop procedures in order to identify these customers and transactions relationships.

With regard to PEP relationships, refer to the separate section below.

**Inspection Procedure:**

- Conduct interviews with the relevant business and compliance functions. The interviews allow the Inspector to understand the risk categories developed by the subject, and how customer relationships and transactions with enhanced money laundering risks are identified at the beginning of the process.

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and in the course of a customer relationship, and evaluate whether the existing risk categories are sufficient, and whether employees have a sufficient understanding of the matter;

- Verify whether the subject has defined the minimum risk categories required by the regulations, i.e. Articles 7 and 8 of the Albanian AML/CFT Law (see above);

- Verify the documentation with regard to the identification of customer relationships and transactions with enhanced risks, and evaluate its appropriateness;

- Verify IT systems or tools used for the purpose of identifying customer relationships and transactions with enhanced risks, and evaluate whether they are sufficient to comply with the AML/CFT Law;

- From the subject’s list of customer transactions (appropriate period of time to be selected), verify whether there are transactions that fall into the enhanced risk category, and verify whether the subject has correctly marked the relevant transactions as involving enhanced risks.

5.8 Enhanced Due Diligence

Objective: Assess whether the company obtains appropriate further documentation or information regarding customer relationships with enhanced risks or transactions with enhanced risks. Assess whether the company, through the documentation and information obtained, appropriately understands the background of such a customer relationship and/or transaction.

Overview

Article 7 of the AML/CFT Law stipulates that in cases of customers and transactions involving enhanced (high) money laundering risks, the subject must perform a higher degree of due diligence, i.e., obtain further background information such as the following:

- With regard to customer relationships, further information about the customer’s background, e.g., curriculum vitae, assets (cash, investments, real estate, participations), family, in-depth information about source of the funds placed with the company, etc.

- With respect to transactions, information about the rationale (reason), counterparties, source of funds and in case of a commercial transaction, its business purpose, a copy of the underlying contract, etc.

The amount and character of the information and documents to be obtained varies from case to case, depending on risk factors such as amount, unusualness, countries involved, etc. The additional information and documents obtained should allow the subject to judge whether the customer relationship or the transaction are suspicious or not. For this purpose, the subject should not just collect the necessary additional information and documents, but actually verify whether, in sum, they make sense and sufficiently explain the background of the transaction.

Inspection Procedure

- From the subject’s list of consumers/customers and transactions involving enhanced risks, select an appropriate number of positions, obtain the relevant or transaction files of the consumers/customers; and
Verify whether the information/documents obtained are sufficient to judge whether the background of the consumer/customer relationship and/or the transaction is sufficiently understood, and whether it is, or appears suspicious.

5.9 Politically Exposed Persons (Article 8, paragraph 1, AML/CFT Law)

Overview

Objective: Assess whether the subject follows the provisions of the AML/CFT Law for relationships with senior politically exposed persons, often referred to as "politically exposed persons" ("PEPs"), and the adequacy of the subject’s systems to manage the risks associated with such domestic or foreign political figures, and management’s ability to implement effective risk-based due diligence, verification, monitoring, and reporting systems.

The subject should take all reasonable steps to ensure that it does not knowingly or unwittingly assist in hiding or moving the proceeds of corruption by senior foreign political figures, their families, and their associates. Because the risks presented by PEPs will vary by customer, product/service, country, and industry, identifying, monitoring, and designing controls for these accounts and transactions should be risk-based.

Definition of PEP

According to Law No. 9917, Albania’s AML/CFT Law, “PEPs” mean persons who are obliged to declare their properties pursuant to Law No. 9049, date April 10, 2003, “On the Declaration and Auditing of Properties and Financial Obligations of Elected Officials and Public Employees, as amended.” Law No. 9019 requires government officials, their families, and associated persons in a close personal work or business relationship (excluding employees of lower or middle management, according to the provisions of the civil service legislation) to declare certain assets as well as the sources of their creation.

This category also includes individuals who have had or have important functions in a government and/or in a foreign country, such as: head of state and/or government, senior politicians, senior officials of government, judiciary or the army, senior leaders of public companies, key officials of political parties, including the members of the family or associated persons in close personal, working or business relationships. Given the above, it is recommended that companies categorize officials and their related persons as either incumbent or former with proper documentation.

PEP Risk Factors

In high-profile cases over the past few years, PEPs have used companies as conduits for their illegal activities, including corruption, bribery, and money laundering. However, not all PEPs present the same

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15 The AFSA will coordinate with the GDPML where necessary in assessing PEPs
16 Note: “Politically exposed persons” are the persons who are obliged to declare their properties, in accordance with Law No. 9049, dated October 4, 2003 "On the declaration and audit of assets, financial obligations of the elected officials and certain public employees" including the members of the family or associated persons in close personal, working or business relationships, excluding employees of the middle or lower management level, according to the provisions of the civil service legislation. This category also includes individuals who have had or have important functions in a government and/or in a foreign country, such as: head of state and/or government, senior politicians, senior officials of government, judiciary or the army, senior leaders of public companies, important officials of political parties, including members of the family or associated persons in close personal, working or business relationships.
17 While the law is not clear on what constitutes “related persons” AFSA shall coordinate with the GDPML on reviews/final dispositions of PEPs
level of risk. This risk will vary depending on numerous factors, including the PEP's geographic location, industry or sector, position, and level or nature of influence or authority. Risks may also vary depending on factors such as the purpose of the account, the actual or anticipated activity, products and services used, and size or complexity of the account relationship.

As a result of these factors, some PEPs may be lower risk and some may be higher risk for foreign corruption or money laundering. Subjects that conduct business with dishonest PEPs face substantial reputational risk, additional regulatory scrutiny, and possible supervisory action. Red flags may indicate transactions related to the proceeds of foreign corruption. Note: the General Inspector of High Inspectorate for the Assets Declaration & Auditing presents no less than twice per year a complete and updated list of PEPS in accordance with the provisions set forth in Albanian Law No. 9049, dated April 10, 2003, “On the Declaration and Auditing of Assets and Financial Obligations of the Elected Officials and of a Number of Public Servants”, amended. Companies also should be alert to a PEP’s access to, and control or influence over, government or corporate accounts; the level of involvement of intermediaries, vendors, shippers, carriers and agents in the industry or sector in which the PEP operates; and the improper use of corporate vehicles and other legal entities to obscure ownership.

**PEP Risk Mitigation**

Subjects should exercise reasonable judgment in designing and implementing policies, procedures, and processes regarding PEPs. Subjects should obtain risk-based due diligence information on PEPs and establish policies, procedures, and processes that provide for appropriate scrutiny and monitoring. Having appropriate risk-based account opening procedures for large-dollar or higher-risk products and services is critical. The opening of an account is the prime opportunity for the subject to gather information for all consumers/customers, including PEPs.

In the report (proportionally) with the identified level of risk, due diligence procedures should include, but are not necessarily limited to, the following:

- Identify the accountholder and beneficial owner, including the nominal and beneficial owners of companies, trusts, partnerships, private investment companies, or other legal entities that are accountholders;
- Seek information directly from the accountholder and beneficial owner regarding possible PEP status;
- Identify the policyholder's and beneficial owner's countr(ies) of residence and the level of risk for corruption and money laundering associated with these jurisdictions;
- Obtain information regarding employment, including industry and sector and the level of risk for corruption associated with the industries and sectors;
- Check references, as appropriate, to determine whether the accountholder and beneficial owner is or has been a PEP;
- Identify the account-holder's and beneficial owner's source of wealth and funds;
- Obtain information on immediate family members or close associates either having transaction authority over the account or benefiting from transactions conducted through the account;
- Determine the purpose of the account and the expected volume and nature of account activity; and
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Make reasonable efforts to review public sources of information. These sources will vary depending upon each situation; however, subjects should check the accountholder and any beneficial owners of legal entities against reasonably accessible public sources of information (e.g., government databases, major news publications, commercial databases and other databases available on the Internet, as appropriate).

PEP accounts are not limited to large or internationally focused companies. A PEP can open an account at any company, regardless of its size or location. Subjects should have risk-based procedures for identifying PEP accounts and assessing the degree of risks involved, which will vary. Management should be involved in the decision to accept a PEP account. If management determines after-the-fact that an account is a PEP account, it should evaluate the risks and take appropriate steps.

The subject should exercise additional, reasonable due diligence with regard to such accounts. For example, the company may increase reference inquiries, obtain additional background information on the PEP from branches or correspondents operating in the client's home country, and make reasonable efforts to consult publicly available information sources. Ongoing risk-based monitoring of PEP accounts is critical to ensuring that the accounts are being used as anticipated.

**Inspection Procedure**

**General**

1. Review the risk-based policies, procedures, and processes related to PEPs. Evaluate the adequacy of policies, procedures and processes related to PEP’s. Evaluate the adequacy of the policies, procedures, and processes given the company’s PEP accounts and the risks they present. Assess whether the risk-based controls are adequate to reasonably protect the subject from being used as a conduit for money laundering, corruption, and financing of terrorism.

2. Review the procedures for opening PEP accounts. Identify management’s role in the approval and ongoing risk-based monitoring of PEP accounts.

3. From a review of MIS and internal risk rating factors, determine whether the company effectively identifies and monitors PEP relationships, particularly those that pose a higher risk for corruption, money laundering, and terrorist financing.

4. Determine whether the company’s system for monitoring PEPs for suspicious activities, and for reporting of suspicious activities, is adequate given the company’s size, complexity, location, and types of customer relationships.

5. If appropriate, determine whether the subject has verified whether the person is on any sanctions list.

**Transaction Testing**

6. On the basis of the company’s risk assessment of its PEP relationships, as well as prior inspection and audit reports, select a sample of PEP accounts. From the sample selected, perform the following inspection procedures:

   - Determine compliance with regulatory requirements and with the company’s established policies, procedures, and processes related to PEPs.
   - Review transaction activity for accounts selected. If necessary request and review specific transactions.
If the analysis of activity and customer due diligence information raises concerns, hold discussions with company management.

On the basis of inspection procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with PEPs.

5.10 Monitoring by the AML/CFT Compliance Officer

Objective: Assess whether the AML/CFT Compliance function develops and performs a sufficient set of monitoring tasks to provide assurance to management that the business functions execute AML/CFT due diligence in a compliant manner.

Preliminary remarks

One typical task of an AML/CFT Compliance Officer is to monitor whether the business functions execute due diligence and enhanced due diligence controls and procedures in an appropriate and compliant manner, in order to provide assurance to the management that the provisions of the AML/CFT Law are duly followed. The AML/CFT Compliance Officer should therefore develop and maintain a set of monitoring tasks that cover the important provisions of the AML/CFT Law.

Examples include:

- Periodic reviews (frequency depends on the level risk involved) of an appropriate number of files of new customer relationships, and judgment on whether basic due diligence (identification and verification of the identity of the customer and the beneficial ownership, documentation of basic customer data and background information) was duly performed;
- Periodic checks (frequency depends on the level risk involved) on whether customers and transactions with enhanced risks were correctly identified (possible "red flags") and marked;
- Checks on whether customer background information is updated when necessary.

All such checks must be documented.

Inspection Procedure:

1. Interview the AML/CFT Compliance Officer and determine whether he/she has developed and documented the necessary set of monitoring tasks, and whether the tasks are executed according the defined periodicity;
2. Obtain a number of sample cases from the AML/CFT Compliance Officer’s monitoring files and verify whether the checks/reviews were properly performed and documented.

5.11 Cash transaction reports (CTRs)

Objective: Assess whether the subject follows the rules of the AML/CFT Law on reporting of cash transactions at the amount determined in the provisions of AML/CFT Law.

Inspection Procedure:

For an appropriate period of time, obtain the company’s list of incoming and outgoing cash transactions and verify whether these were duly reported to the General Directorate.
5.12 Obligation to maintain data - Record Retention

**Objective:** Assess whether the subject duly follows the provisions of Article 16 of the AML/CFT Law regarding the obligation to maintain data pertaining to AML/CFT obligations.

**Preliminary remarks**

According to Article 16 of the AML/CFT Law Insurers must maintain for at least 5 years* from the date when the last financial transaction (of a business relationship) was carried out, or after the business relationship was terminated, the following documents and information concerning:

- Identification of business relationships;
- Account files;
- Customer / business correspondence; and
- Financial transactions (i.e., registers, reports and documents related to these).

**Inspection Procedure**

- Obtain an appropriate number of files of current customer relationships and their business transactions and verify whether all necessary data and documents are maintained by the company;
- Obtain an appropriate number of files of terminated customer relationships and their business transactions and verify whether the company maintains all necessary data and documents.

5.13 Preliminary Evaluation

After the inspector has completed the review of all four required elements of the subject’s AML/CFT compliance program, the inspector should document a preliminary evaluation of the subject’s program. At this point, the inspector should revisit the initial inspection plan, in order to determine whether any strengths or weaknesses identified during the review of the institution’s AML/CFT compliance program warrant adjustments to the initial planned scope. The inspector should document and support any changes to the inspection scope, then proceed to the applicable core and, if warranted, expanded inspection procedures. If there are no changes to the inspection scope, the inspector should proceed to the core inspection procedures, "Developing Conclusions and Finalizing the Inspection," below.

5.14 Developing Conclusions and Finalizing the Inspection

**Objective:** Formulate conclusions, communicate findings to management, prepare report comments, develop an appropriate supervisory response, and close the inspection.

**Formulating Conclusions**

- Accumulate all pertinent findings from the AML/CFT inspection procedures performed. Evaluate the thoroughness and reliability of any risk assessment conducted by the company. Reach a preliminary conclusion as to whether the following requirements are met:

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18 Entities must maintain documentation concerning identification, accounts and correspondence with the customer for 5 years from the date of account closing or termination of the business relationship with the customer and/or entity. At the reasonable request of a responsible authority a company may be required to maintain documentation for more than 5 years.
- The AML/CFT compliance program is effectively monitored and supervised in relation to the subject’s risk profile as determined by the risk assessment. The inspector should determine if the AML/CFT compliance program is effective in mitigating the subject’s overall risk.

- The Supervisory Board and senior management (a) are aware of AML/CFT regulatory requirements, (b) effectively oversee AML/CFT compliance, and (c) commit, as necessary, to corrective actions (e.g., audit and regulatory inspections).

- AML/CFT policies, procedures, and processes are adequate to ensure compliance with applicable laws and regulations and appropriately address higher-risk operations (products, services, customers, entities, and geographic locations).

  - Internal controls appropriately ensure compliance with AML/CFT and provide sufficient risk management, especially for higher-risk operations (products, services, customers, entities, and geographic locations).

  - Independent testing (audit) is appropriate and adequately tests for compliance with required laws, regulations, and policies. Overall audit coverage and frequency are appropriate in relation to the risk profile of the company. Transaction testing is adequate, particularly for higher-risk companying operations and suspicious activity monitoring systems.

  - The designated person responsible for coordinating and monitoring day-to-day compliance is competent (i.e., training, experience and education), and has the necessary resources.

  - Staff is sufficiently trained to adhere to legal, regulatory, and policy requirements.

  - Information and communication policies, procedures, and processes are adequate and accurate.

All relevant determinations should be documented and explained.

**Determine the Underlying Cause**

Determine the underlying cause of policy, procedure, or process deficiencies, if identified. These deficiencies can be the result of a number of factors, including, but not limited to, the following:

- Management has not assessed, or has not accurately assessed, the subject’s AML/CFT risks.

- Management is unaware of relevant issues.

- Management is unwilling to create or enhance policies, procedures, and processes based on increased risks.

- Management or employees disregard established policies, procedures, and processes.

- Management or employees are unaware of, or misunderstand regulatory requirements, policies, procedures, or processes.

- Higher-risk operations (products, services, customers, entities, and geographic locations) have grown faster than the capabilities of the AML/CFT compliance program.

- Changes in internal policies, procedures, and processes are poorly communicated.

Determine whether deficiencies or violations were previously identified by management or audit, or were only identified as a result of this inspection.

**5.15 Discuss Findings with Responsible Inspector and Identify Necessary Action**
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**Inspection Procedure**

- Discuss preliminary findings with the inspector responsible for reviewing the company’s overall AML/CFT compliance. Document workpapers appropriately with the following information:

- A conclusion regarding the adequacy of the AML compliance program and whether it meets all the regulatory requirements by providing the following:
  
  a. A system of internal controls;
  
  b. Independent testing for compliance;
  
  c. A specific person to coordinate and monitor the AML/CFT compliance program;
  
  d. Training of appropriate staff;
  
  e. A conclusion as to whether a written Customer Identification Program (CIP), if applicable, is appropriate for the company’s size, location, and type of business;
  
  f. Any identified violations and an assessment of the severity of those violations;
  
  g. Identification of actions needed to correct deficiencies or violations;
  
  h. If necessary, recommendations for supervisory actions. In addition, as necessary, confer with agency supervisory management, and agency legal staff;
  
  i. An appropriate rating based on overall findings and conclusions;
  
  j. Findings that have been or will be discussed with subject management and, if applicable, any subject/company commitment for improvements or corrective action.

**5.16 Preparing the comments for the Report of the AML Inspection**

Document your conclusion regarding the adequacy of the subject’s AML/CFT compliance program. Discuss the effectiveness of each of these elements of the subject’s AML/CFT compliance program. Indicate whether the AML/CFT compliance program meets all the requirements of the Albanian AML/CFT Law.

The inspector does not need to provide a written comment on every one of the items (a-j) discussed above. Written comments should cover only areas or subjects pertinent to the inspector’s findings and conclusions. All significant findings must be included in the Report of Inspection (“RoI”). The inspector should ensure that work papers are prepared in sufficient detail to support issues discussed in the RoI.

To the extent that items 1-8 below are discussed in the work papers, but not the RoI, the inspector should ensure that the work papers thoroughly and adequately document each review, as well as any other aspect of the company’s AML/CFT compliance program that merits attention, but may not rise to the level of being included in the RoI. The inspector should organize and reference work papers and document conclusions and supporting information within internal databases, as appropriate. As applicable, the inspector should prepare a discussion of the following items.

Describe the commitment of the Supervisory Board and senior management to AML/CFT compliance. Consider whether management has the following:

1. A strong AML/CFT compliance program fully supported by the Supervisory Board, senior management or a similar body;
2. A requirement that the Supervisory Board and senior management are kept informed of AML/CFT compliance efforts, audit reports, any compliance failures, and the status of corrective actions, whether the AML/CFT Compliance function is sufficiently staffed.

3. Describe whether the company’s policies, procedures, and processes meet the regulatory requirements and are effective.

4. Describe whether the company’s policies, procedures, and processes for large currency transactions meet the requirements of AML/CFT Law No. 9917, Art 13, ("On the Prevention of Money Laundering and Financing of Terrorism") and are effective. If applicable, describe whether the company’s policies, procedures, and processes for CTR exemptions meet regulatory reporting requirements, appropriately grant exemptions, and use the correct forms.

5. Describe whether the company’s policies, procedures, and processes meet the requirements of the applicable law. Discuss whether the policies, procedures, and processes include effective internal controls (e.g., separation of duties, proper authorization), and provide a means to monitor transfers for CTR reporting purposes. AML/CFT Law No. 9917, Art 11, and suspicious activities.

6. Describe the company’s recordkeeping policies, procedures, and processes. Indicate whether they meet the requirements of AML/CFT Law No. 9917, Articles 6, 11 & 16.

7. Describe whether the AML/CFT controls and procedures in place are effectively working and leading to a result that is appropriate and compliant with all provisions of the Albanian AML/CFT Law.

8. Describe whether the company’s policies and procedures for law enforcement requests for information from foreign law enforcement authorities to the Albanian Prosecutor General meet regulatory requirements.\(^\text{19}\)

6. **PHASE IV: Draft Inspection Report and Management Letter**

6.1 **Draft Inspection Report**

The inspection report should contain any significant findings discovered during the inspection. It should set out the observations, findings, conclusions and recommendations to be made to the company so that it clearly supports content of the management letter. A sample management letter is included in Exhibit 6. The contents of the inspection report should, in turn, be fully supported and confirmed by the inspection working papers, inspection notes and other relevant documentation.

6.2 **Management Letter**

The management letter is used to present the results of the inspection to company management. It should be concise and to the point, addressing only issues that require remedial action by management. Management letters should be free of any ambiguity or uncertainty and be easy to read and understand. There are four points that have to be made in all management letters:

\(^{\text{19}}\) Requests for information sent by foreign authorities to Albanian General Prosecutor through a Rogatory Letter must be sent through Ministry of Justice or directly through General Prosecutors Office in case of urgency. Once the prosecutor receives the request he will ask the court to allow the execution of the Rogatory Letter. Upon the Court’s written consent the prosecutor can get any requested information and documentation from the insurance company.
1. **Findings (issues).** There should be clear descriptions of the issues found by inspectors that must be fixed, e.g., “The subject’s records of AML/CFT training attendance are inadequate. Also, non-attendance is not followed up on with absent employees.”

2. **Why the findings must be fixed (effect on company).** The management letter should set out the effect of the issue on the company, e.g., “Lack of record retention in terms of AML/CFT training attendance as well as missing follow-up of non-attendance leads to the risk that certain employees do not gain an understanding of AML/CFT in general and of the company’s AML framework.”

3. **What has to be done (i.e., recommendations)?** Company management/Board must be told what AFSA expects to undertake in order to resolve the issue, e.g., “Attendance at AML trainings must be kept, and non-attendance must be followed up and corrected.” In this example, the action to be taken is clear, but it is better to require the subject to correct the issue and take the advice of the inspector regarding the way he aims to do that. If the correction later proves to be inadequate, the subject can give arguments that it did what was said to be done.

4. **Timeframe.** No recommendations should be made without a deadline by which the subject must respond to the regulator. A 30-day turnaround is the normal practice, however may be difficult to achieve where, for example, the subject needs to define and install new IT systems. “Please confirm by [date] that: (a) the subject has taken reasonable steps to assure that records of AML/CFT training attendance are kept; and (b) reasonable process and controls have been implemented to assure that employees who didn’t attend an AML/CFT training session receive follow-up training, and that records of such follow-up training are retained.”

5. The management letter should be issued and delivered by the regulators to the chief executive officer and the supervisory council chair, with a request that a copy be provided to the company’s external auditor and compliance officer.

If the subject’s response is satisfactory, (i.e., the action(s) taken, or to be taken are acceptable) the inspector should reply acknowledging that the subject’s action(s) seem acceptable, but will be reassessed at or before the next scheduled inspection.

In instances where the issues raised are of significant complexity or need several mid- to long-term actions, the subject must be required in the Management letter to present a detailed project plan, naming the responsible parties, on how they intend to solve the item.

7. **PHASE V: Follow-up Inspection**

In case of issues that pose high risks or significant complexity, the subject should be visited after a reasonable period of time to perform a post-implementation (follow-up) Inspection in order to verify and assure that the issue is indeed and properly solved. The follow-up Inspection should be defined in the Management letter. Its performance and program depends on the issue that was raised. It shall basically repeat the Inspection on the relevant issue and provide in-depth certainty that the subject has taken appropriate steps to solve the issue.

8. **Exhibits**
Exhibit 1: Inspection Documentation

The inspector must prepare documentation for each inspection in sufficient detail to provide a clear understanding of the work performed, the inspection evidence obtained and its source, and the conclusions reached. Inspection letters should include:

- A title, which includes the name of the insurer, a title or description of the workpaper and its contents and the effective date of the financial statements under inspection.
- A procedure, describing the purpose of the workpaper with descriptions of the tests to be performed.
- A source, noting where the information provided and tested on the workpaper was obtained from.
- A conclusion regarding the results of the inspection testing and the conclusions that can be reached from those results.
- A preparer sign-off, noting the date the work was completed.
- A reviewer sign-off, noting the date the work was reviewed.

Inspection documentation may include, but is not limited to, exam programs, analyses, problems with the memorandums, summaries of significant findings or issues, letters of confirmation and representation, checklists, abstracts or copies of important documents, correspondence (including e-mail) concerning significant findings or issues, and schedules of the work the examiner performed.

Abstracts or copies of the entity’s records (for example, significant and specific contracts and agreements) may be included as part of the documentation if they are needed to support the work performed and conclusions reached. Any information provided by the client should be marked as such. Oral explanations on their own are not sufficient support for documenting inspection evidence or reaching conclusions, but may be used by the inspector to clarify or explain information contained in the documentation.

In conclusion, the inspector should prepare documentation that enables the reviewer to understand:

- The nature, timing, and extent of inspection procedures performed to comply with inspection standards and applicable legal and regulatory requirements.
- The expectations and results of the inspection procedures performed and the evidence obtained.
- The conclusions reached on significant matters.
- That the insurer records agree or reconcile with the financial statements or other inspection information.

Exhibit 2: Inspection Purpose and Planning

Objective: Identify the subject’s AML/CFT risks, develop the inspection scope, and document the plan. This process includes determining inspection staffing needs and technical expertise, and selecting inspection procedures to be completed.

Insurer’s AML/CFT Profile Summary

The Insurer’s AML/CFT profile summary will derive from database record collected within AFSA.

Understanding the AML Corporate Governance Structure

The Insurer’s AML/CFT profile summary will derive from database record collected within AFSA. To facilitate an inspector’s understanding of the subject’s risk profile and to adequately establish the scope of the AML/CFT inspection, the inspector should complete the following steps, in conjunction with the review of the subject’s AML/CFT risk assessment:
1. Review prior examination or inspection reports, related workpapers/letters, and management’s responses to any previously identified AML/CFT issues; identify completed inspection procedures; obtain AML/CFT contact information; identify reports and processes the company uses to detect unusual activity; identify previously noted higher-risk company operations; review recommendations for the next inspection. In addition, contact company management as appropriate to discuss the following:
   - AML/CFT compliance program.
   - AML/CFT risk assessment.
   - Suspicious activity monitoring and reporting systems.
   - Level and extent of automated AML/CFT systems.

For the above topics, for guidance refer to the appropriate overview and inspection procedures sections in the manual.

2. Develop list of AML/CFT items to be incorporated into the integrated inspection request letter. If the AML/CFT portion of the inspection is a separately part of the inspection, send the request letter to the subject. Review the request letter documents provided by the subject. Refer to Request Letter Items.

3. Review correspondence the company or AFSA have received from, or sent to, outside regulatory and law enforcement agencies relating to AML/CFT compliance. Communications, particularly those received from GDPML may document issues relevant to the inspection, such as the following:
   - Filing errors for SARs, CTRs, and CTR exemptions received electronically from GDPML.
   - Civil money penalties issued by or in process from GDPML or other government entity.
   - Law enforcement subpoenas or seizures.
   - Review SAR, CTR, and CTR exemption information obtained from the reporting database. The number of SARs, CTRs, and CTR exemptions filed should be obtained for a defined time period, as determined by the examiner. Consider the following information, and analyze the data for unusual patterns, such as:
      - Volume of activity, and whether it is commensurate with the customer’s occupation or type of business.
      - Number and dollar volume of transactions involving higher-risk customers.
      - Volume of CTRs in relation to the volume of exemptions (i.e., whether additional exemptions resulted in significant decreases in CTR filings).
      - Volume of SARs and CTRs in relation to the company’s size, asset or deposit growth, and geographic location.

4. Examiners should not criticize a company solely because the number of SARs or CTRs filed is lower than SARs or CTRs filed by “peer” companies. However, as part of the inspection, examiners must review significant changes in the volume or nature of SARs and CTRs filed and assess potential reasons for these changes.

5. Review internal and external audit reports and work papers for AML/CFT compliance, as necessary, to determine the comprehensiveness and quality of audits, findings, and management responses and
corrective action. A review of the independent audit’s scope, procedures, and qualifications will provide valuable information on the adequacy of the AML/CFT compliance program.

6. While sanctions regulations are not part of the AML/CFT evaluation of sanction compliance is frequently included in AML/CFT inspections. It is not the AFSA’s primary role to identify sanctions violations, but rather to evaluate the sufficiency of a subject’s implementation of policies, procedures, and processes to ensure compliance with sanctions laws and regulations. To facilitate the inspector’s understanding of the subject’s risk profile and to adequately establish the scope of the sanctions inspection, the inspector should complete the following steps:

- Review the subject’s sanctions risk assessment. The risk assessment, which may be incorporated into the company’s overall AML/CFT risk assessment, should consider the various types of products, services, customers, entities, transactions, and geographic locations in which the subject is engaged, including those that are processed by, through, or to the subject to identify potential sanctions exposure.
- Review the subject’s independent testing of its sanctions compliance program.
- Review correspondence received from sanctions list and, as needed, the civil penalties area on UN sanctions Website to determine whether the subject had any warning letters, fines, or penalties imposed by sanctions since the most recent inspection.
- Review correspondence between the subject and sanctions (e.g., periodic reporting of prohibited transactions and, if applicable, annual sanctions reports on blocked property).

In addition to the above, at larger, more complex organizations, inspectors may complete various types of inspections throughout the supervisory plan or cycle to assess sanctions compliance. These reviews may focus on one or more business lines.

7. On the basis of the above inspection procedures, in conjunction with the review of the subject’s AML/CFT risk assessment, develop an initial inspection plan. The inspector should adequately document the plan, as well as any changes to the plan that occur during the inspection. The scoping and planning process should ensure that the inspector is aware of the company’s AML/CFT compliance program, sanctions compliance program, compliance history, and risk profile (i.e., products, services, customers, entities, transactions, and geographic locations).

As necessary, additional core and expanded inspection procedures may be completed. While the inspection plan may change at any time as a result of on-site findings, the initial risk assessment will enable the inspector to establish a reasonable scope for the AML/CFT review. In order for the inspection process to be successful, inspectors must maintain open communication with the company’s management and discuss relevant concerns as they arise.

Exhibit 3: Inspection Planning Memorandum

AML/CFT inspections may be carried out only by AFSA or in cooperation with GDPML. The inspection should include the following procedures addressed to anti-money laundering and countering financing of terrorism:

1. Conduct a brief interview of the compliance officer responsible for implementing and monitoring compliance with the subject’s AML/CFT program. If the compliance officer delegates certain responsibilities to other employees, it may be appropriate to also conduct interviews with them.

The interview topics should include, although not be limited to, the oversight of the day-to-day compliance with AML/CFT requirements, the contents of the subject’s AML/CFT program, risk
assessment, training program, and independent test plans, and how the subject monitors and controls the activity of its agents. The interview should also cover policies and procedures for detecting, monitoring, and reporting suspicious activity. This includes the subject’s decision-making policies for reporting suspicious activity when “red flags” are identified. Finally, the examiner should make sure the subject has procedures in place to report the receipt of cash premium payments in excess of the determined value in the AML/CFT Law. The subject may report to GDPML Form _______ (See: www.fint.gov.al.) when it (or its agent) receives currency in excess of the determined value in the AML/CFT Law in a single transaction, or two or more related transactions. The inspector to verify they have been addressed in the subject’s risk assessment should document any significant risks related to money laundering activities. During the interview, the inspector should note if the Compliance Officer is being less than candid, has provided false or misleading information, appears to lack an understanding of the subject’s risks of money laundering activities, or has omitted material information related to anti-money laundering that should be disclosed to the General Directorate for further consideration.

2. Obtain a copy of the written AML/CFT program and verify that it includes the necessary components discussed in the points above. Also, verify that senior management approved the program.

3. Obtain copies of the subject’s risk assessment, independent test plans and the results of the testing performed and review for any important issues. Although the AML/CFT program must be in writing, the subjects are not required by regulation to create a written risk assessment. However, management is encouraged to document its risk assessment in writing in order to provide a clear basis for the subject's policies and procedures. Inspectors should consider whether the company’s process for periodically reviewing and updating its risk assessment is adequate. The subject’s AML/CFT program must be commensurate with the:

- Risks posed by the size of the particular insurance subject,
- Nature and volume of the covered products it offers, and
- Distribution channels it utilizes to market the covered products. In its risk assessment, each subject should identify and assess the money laundering risks that may be associated with its risk categories (i.e., unique combination of covered products, services, consumers/customers and their geographic locations, distribution channels, internal controls, etc.).

The subject should conduct a more detailed analysis of these categories as they apply to the subject in order to assess the risk associated with each risk category. The inspector should review the risk assessment for completeness to determine whether management has considered and adequately assessed all the appropriate risk categories. The rationale for the frequency of independent testing should be included in the risk assessment.

Exhibit 4: Subject’s AML/CFT Risk Matrix

<table>
<thead>
<tr>
<th>No.</th>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>1</td>
<td>Overall GWP20</td>
<td>Low GWP</td>
</tr>
<tr>
<td>2</td>
<td>Product Risk</td>
<td>Likelihood that products are offered for money laundering</td>
</tr>
</tbody>
</table>

20 Only for the life insurance companies/agents
### Anti Money Laundering and Countering Financing of Terrorism Supervision Manual

<table>
<thead>
<tr>
<th>No.</th>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>is low, e.g., there is no cash element, no flexibility, no use as collateral, etc.</td>
<td>risks are limited, i.e., they offer limited flexibility (limited surrender possibility), and cannot be used as collateral, for payments, or for customer self-service</td>
</tr>
<tr>
<td>3</td>
<td>Customer-base volatility</td>
<td>Stable, well-known customer base in a localized environment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Cross-border customer base</td>
<td>Purely domestic customer base, or non-material number of non-domestic customers. Portfolio of non-domestic clients is not material</td>
</tr>
<tr>
<td>5</td>
<td>GWP from high-risk customers</td>
<td>Non-material GWP percentage (compared to the insurer's entire book) from high-risk customers (according to the insurer's risk categories)</td>
</tr>
<tr>
<td>6</td>
<td>Internal Audit report items</td>
<td>No material findings in terms of AML/CFT and</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Factor</th>
<th>Rating</th>
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<tbody>
<tr>
<td>10</td>
<td>Number of CTRs in the</td>
<td>No CTRs in the medium number of</td>
</tr>
</tbody>
</table>
### Anti Money Laundering and Countering Financing of Terrorism Supervision Manual

<table>
<thead>
<tr>
<th>CTRs (cash transactions &gt; ALL 1million)</th>
<th>previous 12 months CTRs in the previous 12 months</th>
<th>the previous 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Level of automated controls</td>
<td>A large amount of internal controls in terms of AML/CFT and Sanctions are automated</td>
<td>Low level of automation of controls in terms of AML/CFT and Sanctions</td>
</tr>
<tr>
<td>12 AML/CFT Sanctions staffing level</td>
<td>High level of Compliance / Legal FTEs (dedicated to AML/CFT &amp; Sanctions) compared to total staff.</td>
<td>Medium level of Compliance / Legal FTEs (dedicated to AML/CFT &amp; Sanctions) compared to total staff.</td>
</tr>
</tbody>
</table>

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**Exhibit 5:** Inspection Planning Checklist – Onsite

<table>
<thead>
<tr>
<th>Yes/No</th>
<th>Inspector</th>
<th>Date</th>
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<tbody>
<tr>
<td></td>
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</tbody>
</table>

#### 1. Governance

- a. Three Lines of Defense as a model
- b. Anti-Money Laundering appointed Officer (AML/CFT)
- c. Access of AML/CFT to the CEO of the Business Unit
- d. Independence of Compliance from Business (1st Line of Defense)
- e. Role & responsibilities of the Business (1st Line of Defense)
- f. Role & responsibilities of Compliance (2nd Line of Defense)
2. Training & Awareness

<table>
<thead>
<tr>
<th></th>
<th>Yes/No</th>
<th>Inspector</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>General training for all employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Tailored training for employees with specific AML/CFT exposure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Supervision &amp; record keeping of training attendance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Test included in the training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>Record keeping of test results</td>
<td></td>
<td></td>
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</tbody>
</table>

3. Risk Assessment & Risk Categorization

<table>
<thead>
<tr>
<th></th>
<th>Yes/No</th>
<th>Inspector</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Assessment of inherent AML/CFT risks of the Business Unit (risks posed by customer types, products and services, distribution channels, geographies etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Risk categorization of customer relationships (based on inherent risk factors)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Risk categorization of transactions (based on inherent risk factors)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Documentation of risk assessment and reasoning for risk categorization</td>
<td></td>
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</tbody>
</table>

4. Due Diligence

<table>
<thead>
<tr>
<th></th>
<th>Yes/No</th>
<th>Inspector</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>a.</td>
<td>Identification and verification of the identity of the customer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Verification of the beneficial owner or beneficiary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Politically Exposed Persons (PEP): name checks, risk categorization, PEP list</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Application of risk factors on customer relationships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>Enhanced due diligence for customer relationships / transactions with increased risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f.</td>
<td>Local Management approval for customer relationships involving certain categories of increased risk (e.g. PEPs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Ongoing due diligence on customer relationships</td>
<td>Yes/ No</td>
<td>Inspector</td>
<td>Date</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>---------</td>
<td>-----------</td>
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<tr>
<td>h. Documentation of KYC</td>
<td></td>
<td></td>
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<tr>
<td>i. Documentation of enhanced due diligence</td>
<td></td>
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<tr>
<td>j. Documentation of ongoing due diligence</td>
<td></td>
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<tr>
<td>k. Due diligence / controls regarding intermediaries</td>
<td></td>
<td></td>
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<tr>
<td>l. Restricted fund transfers according to existing AML/CFT Policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>m. Customer transaction monitoring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>n. Enhanced investigations for risky transactions with increased</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

5. Controls

| a. Controls framework (policies & procedures) | | | |
| b. AML/CFT controls executed by the Business (1st line of defense) | | | |
| c. AML/CFT controls executed by Compliance (2nd line of defense) | | | |

6. Escalation & Reporting

| a. Regular reporting for Compliance oversight | | | |
| b. Regular Reporting to local and global Business Management | | | |
| c. Escalation process in case employees get aware of suspicious activities | | | |
| d. Reporting of SARs/STRs to AFSA/ GDPML/CFT | | | |
| e. Documentation of escalation/reporting of SARs | | | |

7. Documentation & Record Retention

| a. Documentation | | | |
| b. Record retention | | | |
### Anti Money Laundering and Countering Financing of Terrorism Supervision Manual

<table>
<thead>
<tr>
<th>8. Supervision</th>
<th>Yes/No</th>
<th>Inspector</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Self-assessment of the Compliance framework</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Documentation of the self-assessment</td>
<td></td>
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</table>

**Additional comments:**

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**Exhibit 6:** Draft Management Letter

Dear [name of Senior Manager]

We have completed our Anti-Money Laundering and combating terrorism inspection of [Insert name of Insurance Company] as of [Date], and other related information regarding the subject. We have identified the following issues and concerns regarding specific operations or practices of the subject for which we require that you take corrective action.

For each item/issue noted:

- State the issue using a concise statement of the problem identified;
- Illustrate the effect of this issue including the materiality impact, and what impact it has had or could have on the financial statements, the company’s financial condition, or its operations;
- State what has to be done (recommendations). The subject should be directed to take action [within a specified timeframe] to resolve the issue(s);
- Provide a deadline for the subject’s response, e.g., “please notify AFSA by [date] how you have remedied, or intend to remedy, this issue(s) with a proposed plan for our consideration.

Sincerely,

Inspector

cc: Chair, Supervisory Council
PHASE I: Risk Assessment, Pre-Inspection Information Gathering and Preliminary Analysis

The first phase is the phase that ends with the fulfillment of the obligation deriving from Regulation n. 58, of 30.06.2015 "On Due Diligence and Enhanced Due diligence measures by subjects of law on anti-money laundering and financing terrorism", as amended. Pursuant to article 11, paragraph 2, of regulation 58/2015, entities are required to report annually to the Authority the data requested in annexes 4 and 5 within 30 days the calendar year end.

- Annex 4 is related to the classification of customer risks, the categorization of transfers and any other data related with the subjects under Law on Money Laundering;

- Annex 5 is related to "Anti Money Laundering (AML) / Countering Financing (CFT)". This questionnaire is divided into two parts. The first part includes general information on the topic, while the second part is the question "Know Your Customer (NYC) / Anti Money Laundering Request (AML) / Countering Financing of Terrorism (CFT).

The illustrative risk assessment tables under the self-assessment forms filed with the AFSA can be found in the Guideline “On the money laundering risk assessment and financing of terrorism”, attached to the Regulation.

The Guideline "On the money laundering risk assessment and financing of terrorism” defines the way to assess the risks involved, based on external and internal factors, the level of risk for each factor. The purpose of this guide is to determine the general level of risk for each subject, based on a net risk matrix, which is defined as a combination of internal and external risk level.

**Table: Criteria Assessment Matrix**

<table>
<thead>
<tr>
<th>External Risk</th>
<th>Reporting to GDML</th>
<th>Reporting to GDML</th>
<th>Reporting to GDML</th>
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<tbody>
<tr>
<td>High</td>
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<td>Medium</td>
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<td>Medium</td>
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*Internal Risk*
PHASE II: Inspection’s Purpose and Plan

<table>
<thead>
<tr>
<th>Objective: Identify the company’s AML/CFT risks and develop the inspection scope.</th>
<th>Inspector</th>
<th>Date</th>
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</table>

**Steps:**

1. Review prior inspection reports, related work papers, and management’s responses to any previously identified issues with AFSA or the General Directorate; identify completed inspection procedures; obtain contact information; identify reports and processes the company uses to detect unusual activity; identify previously noted higher-risk company operations.

   In addition, contact the Insurer’s Head of Compliance and/or Management as appropriate to discuss the following:
   - AML/CFT risk assessment
   - AML/CFT compliance program
   - Changes in the company’s AML/CFT policies, procedures and controls
   - Follow-up on previous issues identified by AFSA and/or the General Directorate
   - Changes in the Insurer’s product landscape and figures regarding customers, GWP, high-risk customers, etc.
   - Suspicious activity monitoring and reporting systems
   - Level and extent of automated AML/CFT systems

2. Develop a list of AML/CFT items to be incorporated into the integrated inspection request letter. If the AML/CFT portion of the inspection is a particular inspection, send the request letter to the Compliance Officer or designated subject officer. Review the request letter documents provided by the subject.

3. Review correspondence between the company and the AFSA, if not already completed by the inspector in charge or other dedicated inspection personnel. In addition, review correspondence that the subject has received from, or sent to, other regulatory and law enforcement agencies relating to AML/CFT compliance. Communications, particularly those received from the General Directorate may document matters relevant to the inspection, such as the following:
   - Filing errors for SARs and CTRs received electronically from the General Directorate
   - Civil money penalties issued by or in process from the General Directorate
   - Law enforcement subpoenas or confiscation

4. Review SARs and CTR information obtained from the AML/CFT reporting database within the AFSA. Request relevant data from the General Directorate if possible. The number of SARs and CTRs filed should be obtained for a defined time period, as determined by the inspector. Consider the following information and analyze the data for unusual patterns:
   - Volume of activity, and whether it is commensurate with the customer’s occupation or type of business
   - Number and dollar volume of transactions involving higher-risk customers
   - Volume of SARs and CTRs in relation to the company’s size, asset or deposit growth, and geographic location

   As part of the inspection, inspectors must review important changes in the volume or nature of SARs and CTRs filed and assess potential reasons for these changes

5. Review internal and external audit reports and work papers for AML/CFT compliance, as necessary, to determine the comprehensiveness and quality of audits, findings, and management responses and corrective action. A review of the independent audit’s scope, procedures, and qualifications will provide valuable information on the adequacy of the AML/CFT compliance program.
6. Sanctions: While sanctions regulations are not part of the AML/CFT evaluation, sanctions compliance is frequently included in AML/CFT inspections. To facilitate the inspector’s understanding of the company’s risk profile and to adequately establish the scope of the sanctions inspection, the inspector should complete the following steps:

- Review the company’s sanctions risk assessment. The risk assessment, which may be incorporated into the company’s overall AML/CFT risk assessment, should consider the various types of products, services, customers, entities, transactions, and geographic locations in which the company is engaged, including those that are processed by, through or to the subject to identify potential sanctions exposure.

- Review the company’s independent testing of its sanctions compliance program

Review correspondence received from regarding sanctions compliance and, as needed, the civil penalties area on the United Nations sanctions Website http://www.un.org/sc/committees/list_compend.shtml to determine whether the company had any warning letters, fines, or penalties imposed by sanctions since the most recent inspection.

7. Based on the above inspection procedures, in conjunction with the review of the company’s AML/CFT risk assessment, develop an initial inspection plan. The inspector should adequately document the plan, as well as any changes to the plan that occur during the inspection.

The purpose and planning process should ensure that the inspector is aware of the company’s AML/CFT compliance program, sanctions compliance program, compliance history, and risk profile (i.e., products, services, customers, entities, transactions, and geographic locations).

As necessary, additional core and expanded inspection procedures may be completed. While the inspection plan may change at any time as a result of on-site findings, the initial risk assessment will enable the inspector to establish a reasonable scope for the AML/CFT review.

In order for the inspection process to be successful, inspectors must maintain open communication with the company’s management and discuss relevant concerns as they arise.

### PHASE III: On-site/offsite Inspection

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<tr>
<th>AML Compliance Framework and Policy</th>
<th>Inspector</th>
<th>Date</th>
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**Objective:** Assess the adequacy of the subject’s AML/CFT compliance framework. Determine whether the subject has developed, administered, and maintained an effective framework for compliance with the AML/CFT and all of its implementing regulations.

**Inspection Procedures:**

1. Conduct a brief interview of the Compliance Officer, or other person, responsible for implementing and monitoring compliance with the company’s AML/CFT program. If the Compliance Officer delegates certain responsibilities to other employees, it is appropriate to also conduct interviews with them.

2. Review the company’s board or management approved written AML/CFT compliance policy to ensure it contains the following required elements:

   - “Tone at the top”, i.e., general statement about the subject’s principles in the fight against money laundering & terrorist activities
   - A definition of responsibilities of the CEO (for details guidance refer to the relevant section in the AML/CFT Inspection Manual)
   - A definition of responsibilities of the Supervisory Board (for details guidance refer to the...
relevant section in the AML/CFT Inspection Manual)

- A definition of responsibilities of the AML/CFT Compliance Officer (for details guidance refer to the relevant section in the AML/CFT Inspection Manual)

- A system of internal procedures and controls to ensure ongoing AML/CFT compliance, with particular regard to:
  - Art. 4 – 5: Due Diligence and required documents for the customer’s identification
  - Art. 8 – 9: Risk categorization with regard to customers and transactions
  - Art. 7: Enhanced due diligence
  - Monitoring by the AML/CFT Compliance Officer
  - Art. 12 – 15: Reporting obligations
  - Art. 16: Obligation to maintain data

- Training and periodic education for appropriate personnel

- Appropriate AML/CFT reporting to the Supervisory Board or senior management

3. Obtain a copy of the written AML/CFT program and verify that it includes the necessary components discussed above. Also verify that both the Supervisory Board and senior management have approved the program.

4. Obtain copies of the company’s risk assessment, independent test plans and the results of the testing performed and review for any significant issues.

   The inspector should review the risk assessment for completeness to determine whether management has considered and adequately assessed all the appropriate risk categories (products, services, customers, entities, and geographic locations).

5. Responsibilities

   Conduct interview with the company’s Supervisory Board, the CEO and the AML/CFT Compliance Officer. Evaluate whether these have an appropriate understanding of the:

   - Subject’s AML/CFT risks
   - Regulatory requirements as set out in Albania’s AML/CFT law
   - Subject’s AML/CFT policies
   - Subject’s AML/CFT controls and procedures including training

   If any of these functions delegate certain responsibilities to other employees, it may be appropriate to also conduct interviews with these. Topics of the interview should include, although not be limited to:

   - Oversight of the day-to-day compliance with AML/CFT requirements,
   - Contents of the company’s AML/CFT program, risk assessment, training program, and independent test plans, and
   - How the subject monitors and controls the activity of its agents.

   The inspection should also cover the role of the AML/CFT Compliance Officer with regard to detecting, monitoring and reporting suspicious activity. This includes the company’s decision-making policies for reporting suspicious activity when “red flags” are identified.

   The inspection should also cover the role of the AML/CFT Compliance Officer with regard to detecting, monitoring, and reporting suspicious activity. This includes the company’s decision-making policies for reporting suspicious activity when “red flags” are identified. Finally, the inspector should make sure the company has procedures in place to report cash transactions at an amount greater or equal to the amount determined according to the AML/CFT Law.

- Determine whether the board of directors has designated a person or persons responsible for
the overall AML/CFT compliance program. Determine whether the compliance officer has the necessary authority and resources to effectively execute all duties.

- Assess the competency of the compliance officer and his/her staff, as necessary. Determine whether the AML/CFT compliance area is sufficiently staffed for the company’s overall risk level (based on products, services, customers, entities, and geographic locations), size, and AML/CFT compliance needs. In addition, ensure that no conflict of interest exists and that staff is given adequate time to execute all duties.

- During the interview, the inspector should note if the compliance officer (a) is being less than candid, (b) has provided false or misleading information, (c) appears to lack an understanding of the company’s risks of money laundering activities, or (d) has omitted material information related to anti-money laundering that should be disclosed to the General Directorate for further consideration.

Training

Objective: Determine whether the important elements of an AML/CFT training program are adequately addressed in the training program and materials, and whether training has been executed and documented, and non-attendance has been followed up.

Inspection Procedure:

1. Verify whether the subject adheres to the following typical requirements of an AML/CFT training program:
   - The importance the Supervisory Board and senior management place on ongoing education, training, and compliance.
   - Employee accountability for ensuring AML/CFT compliance
   - Comprehensiveness of training, considering specific risks of individual business lines
   - Training of staff from all applicable areas of the subject
   - Definition of the required frequency of attending AML/CFT training
   - Documentation to verify attendance records and training materials
   - AML/CFT training is ongoing / continuous
   - The training material covers subject’s policies, procedures, processes, and new rules and regulations
   - The training material covers different forms of money laundering and terrorist financing as it relates to identification and examples of suspicious activity
   - The training material covers penalties for noncompliance with internal policies and regulatory requirements

2. Verify whether all employees have followed basic AML/CFT training.

3. Verify whether exposed staff has followed full / enhanced AML/CFT training.

4. Conduct a brief interview with the function providing AML/CFT training and review training programs and materials, as well as documentation of attendance. Evaluate whether the AML/CFT training provided was appropriate, and whether attendance was duly documented and followed up.

Due Diligence and required documents for the customer’s identification

Objective: Determine whether the important elements of an AML/CFT training program are adequately addressed in the training program and materials, and whether training has been executed and documented, and non-attendance has been followed up.

Inspection Procedure:

1. Conduct interviews with the relevant business, quality assurance and compliance functions. The interviews should cover the design of and transaction customer due diligence procedures and controls, their implementation and execution;
2. Review functionalities of systems assisting the employees in their execution of and transaction customer due diligence controls

3. Determine an appropriate amount of samples of customer files and verify whether the documents and information necessary according to Art. 4 of the AML/CFT Law have been obtained and registered at the time required by the law.

**Risk categorization with regard to customers and transactions**

Objective: Assess whether the subject has sufficiently developed customer and transaction risk categories, and whether, according to these categories, customers and transactions with enhanced risks are identified for the purpose of enhanced due diligence.

**Inspection Procedure:**

1. Conduct interviews with the relevant business and compliance functions. The interviews allow the Inspector to understand the risk categories developed by the subject and how customer relationships and transactions with enhanced money laundering risks are identified at the beginning and in the course of a customer relationship, and evaluate whether the existing risk categories are sufficient, and whether employees have a sufficient understanding of the matter.

2. Verify whether the subject has defined the minimum risk categories according to Regulation No.58/2015:
   - Politically exposed persons ("PEPs")
   - Non-profit organizations
   - Non-resident customers
   - Customers residing or carrying out business activities in countries that do not follow relevant FATF standards on the prevention and fight against money laundering

   And for transactions:
   - Complex transactions, i.e. transactions with large and unusual values that have no apparent economic or legal purpose
   - Transaction made by customers residing or carrying out business activities in countries that do not apply relevant FATF standards on the prevention and fight against money laundering

3. Verify the documentation with regard to the identification of customer relationships and transactions with enhanced risks, and evaluate its appropriateness

4. Verify IT systems or tools used for the purpose of identifying customer relationships and transactions with enhanced risks, and evaluate whether they are sufficient to comply with the AML/CFT Law.

5. From the company’s list of customer transactions (appropriate period of time to be selected), verify whether there are transactions that fall into the enhanced risk category, and verify whether the subject has correctly marked the relevant transactions as involving enhanced risks.

**Enhanced Due Diligence**

Objective: Assess whether the subject obtains appropriate further documentation or information regarding customer relationships with subject, through the documentation and information obtained, appropriately understands the background of such a customer relationship and/or transaction.

**Inspection Procedure:**

1. From the customers’ list of customers and transactions involving enhanced risks, select an appropriate number of positions, obtain the relevant customer or transaction files.

2. Verify whether the information/documents obtained are sufficient to judge whether the background of the customer relationship and/or the transaction is sufficiently understood, and whether it is, or appears suspicious.
### PEP Relationships

**Objective:** Assess whether the company follows the provisions of the AML/CFT Law for relationships with senior politically exposed persons, often referred to as "politically exposed persons" ("PEPs"), and the adequacy of the company’s systems to manage the risks associated with such domestic or foreign political figures, and management’s ability to implement effective risk-based due diligence, verification, monitoring, and reporting systems.

**Inspection Procedure:**

1. Review the risk-based policies, procedures, and processes related to PEPs. Assess the adequacy of the policies, procedures, and processes given the company's PEP accounts and the risks they present. Assess whether the risk-based controls are adequate to reasonably protect the company from being used as a conduit for money laundering, corruption, and terrorist financing.

2. Review the procedures for opening PEP accounts. Identify management’s role in the approval and ongoing risk-based monitoring of PEP accounts.

3. From a review of MIS and internal risk rating factors, determine whether the company effectively identifies and monitors PEP relationships, particularly those that pose a higher risk for corruption, money laundering, and terrorist financing.

4. Determine whether the subject’s system for monitoring PEPs for suspicious activities, and for reporting of suspicious activities, is adequate given the subject’s size, complexity, location, and types of consumer/customer relationships.

5. If appropriate, determine whether the subject has verified whether the person is on any Sanctions list.

6. Based on the subject’s risk assessment of its PEP relationships, as well as prior inspection and audit reports, select a sample of PEP accounts. From the sample selected, perform the following inspection procedures:
   - Determine compliance with regulatory requirements and with the subject’s established policies, procedures, and processes related to PEPs
   - Review transaction activity for accounts selected. If necessary request and review specific transactions
   - If the analysis of activity and customer due diligence information raises concerns, hold discussions with subject’s management

### Monitoring by the AML/CFT Compliance Officer

**Objective:** Assess whether the AML/CFT Compliance function develops and performs a sufficient set of monitoring tasks to provide assurance to management that the business functions execute AML/CFT due diligence in a compliant manner.

**Inspection Procedure:**

1. Interview the AML/CFT Compliance Officer and determine whether he/she has developed and documented the necessary set of monitoring tasks, and whether the tasks are executed according the defined periodicity.

2. Obtain a number of sample cases from the AML/CFT Compliance Officer’s monitoring files and verify whether the checks/reviews were properly performed and documented.

### Cash transaction reports (CTRs)

**Objective:** Assess whether the company follows the rules of the AML/CFT Law on reporting of cash transaction above a value determined by AML/CFT Law.

**Inspection Procedure:**

1. For an appropriate period of time, obtain the company’s list of incoming and outgoing cash transactions.

2. Verify whether these transactions were duly reported to the General Directorate.

### Obligation to maintain data - Record Retention
**Objective:** Assess whether the company duly follows the provisions of Art. 16 of the AML/CFT Law regarding the obligation to maintain data pertaining to AML/CFT obligations.

**Inspection Procedure:**

1. Obtain an appropriate number of files of current consumer/customer relationships and their business transactions and verify whether the company maintains all necessary data and documents.

2. Obtain an appropriate number of files of terminated customer relationships and their business transactions and verify whether the subject maintains all necessary data and documents.

**Preliminary Evaluation**

After the inspector has completed the review of all four required elements of the company’s AML/CFT compliance program, the inspector should document a preliminary evaluation of the company’s program. At this point, the inspector should:

- Revisit the initial inspection plan, in order to determine whether any strengths or weaknesses identified during the review of the institution’s AML/CFT compliance program warrant adjustments to the initial planned scope.

- Document and support any changes to the inspection scope then proceed to the applicable core and, if warranted, expanded inspection procedures.

If there are no changes to the inspection scope, the inspector should proceed with the next section of the procedure.

**Developing Conclusions and Finalizing the Inspection**

**Objective:** Formulate conclusions, communicate findings to management, prepare report comments, develop an appropriate supervisory response, and close the inspection.

1. **Formulating Conclusions**

   Accumulate all pertinent findings from the AML/CFT inspection procedures performed. Evaluate the thoroughness and reliability of any risk assessment conducted by the subject. Reach a preliminary conclusion as to whether the following requirements are met:

   - The AML/CFT compliance program is effectively monitored and supervised in relation to the company’s risk profile as determined by the risk assessment. The inspector should determine if the AML/CFT compliance program is effective in mitigating the company’s overall risk.

   - The Supervisory Board and senior management are aware of AML/CFT regulatory requirements, effectively oversee AML/CFT compliance, and commit, as necessary, to corrective actions (e.g., audit and regulatory inspections).

   - AML/CFT policies, procedures, and processes are adequate to ensure compliance with applicable laws and regulations and appropriately address higher-risk operations (products, services, customers, entities, and geographic locations).

   Internal controls appropriately ensure compliance with AML/CFT and provide sufficient risk management, especially for higher-risk operations (products, services, customers, entities, and geographic locations).

   - Independent testing (audit) is appropriate and adequately tests for compliance with required laws, regulations, and policies. Overall audit coverage and frequency are appropriate in relation to the risk profile of the company. Transaction testing is adequate, particularly for higher-risk company operations and suspicious activity monitoring systems.

   - The designated person responsible for coordinating and monitoring day-to-day compliance is competent (i.e., training, experience and education), and has the necessary resources.

   - Staff is sufficiently trained to adhere to legal, regulatory, and policy requirements.

   - Information and communication policies, procedures, and processes are adequate and accurate.

2. **Determine the Underlying Cause**

   Determine the underlying cause of policy, procedure, or process deficiencies, if identified. These deficiencies can be the result of a number of factors, including, but not limited to, the following:
### Management has not assessed, or has not accurately assessed, the company’s AML/CFT risks
- Management is unaware of relevant issues
- Management is unwilling to create or enhance policies, procedures, and processes based on increased risks
- Management or employees disregard established policies, procedures, and processes
- Management or employees are unaware of, or misunderstand regulatory requirements, policies, procedures, or processes
- Higher-risk operations (products, services, customers, entities, and geographic locations) have grown faster than the capabilities of the AML/CFT compliance program
- Changes in internal policies, procedures, and processes are poorly communicated

Determine whether deficiencies or violations were previously identified by management or audit, or were only identified as a result of this inspection.

### Discuss Findings with Responsible Inspector and Identify Necessary Action
Discuss preliminary findings with the inspector responsible for reviewing the company's overall AML compliance. Document workpapers appropriately with the following information:

- A conclusion regarding the adequacy of the AML/CFT compliance program and whether it meets all the regulatory requirements by providing the following:
  - A system of internal controls
  - Independent testing for compliance
  - A specific person to coordinate and monitor the AML/CFT compliance program
  - Training of appropriate personnel
  - A conclusion as to whether a written Customer Identification Program (CIP), if applicable, is appropriate for the company's size, location, and type of business
  - Any identified violations and an assessment of the severity of those violations
  - Identification of actions needed to correct deficiencies or violations
  - If necessary, recommendations for supervisory actions. In addition, as necessary, confer with agency supervisory management, and agency legal staff of the subject
  - An appropriate rating based on overall findings and conclusions
  - Findings that have been or will be discussed with subject management and, if applicable, any subject's commitment for improvements or corrective action

### Preparing the comments for the Report of the AML/CFT Inspection
The inspector should organize and reference work papers and document conclusions and supporting information within internal databases, as appropriate. As applicable, the inspector should prepare a discussion of the following items. Describe the Supervisory Board and senior management's commitment to AML/CFT compliance. Consider whether management has the following:

- A strong AML/CFT compliance program fully supported by the Supervisory Board, senior management or a similar body
- A requirement that the Supervisory Board and senior management are kept informed of AML/CFT compliance efforts, audit reports, any compliance failures, and the status of corrective actions, whether the AML/CFT Compliance function is sufficiently staffed
- Describe whether the company's policies, procedures, and processes meet the regulatory requirements and are effective. Describe whether the subject’s policies, procedures, and processes for large currency transactions meet the requirements of AML/CFT Law No. 9917, Art 13, "On Anti Money Laundering and Countering Financing of Terrorism") which are effective. If applicable, describe whether the company's policies, procedures, and processes for CTR exemptions meet regulatory reporting requirements, appropriately grant exemptions, and use the correct forms
**Anti Money Laundering and Countering Financing of Terrorism Supervision Manual**

- Describe whether the company’s policies, procedures, and processes meet the requirements of the applicable law. Discuss whether the policies, procedures, and processes include effective internal controls (e.g., separation of duties, proper authorization), and provide a means to monitor transfers for CTR reporting purposes. AML/CFT Law No. 9917, Art 11, and suspicious activities.

- Describe the subject’s recordkeeping policies, procedures, and processes. Indicate whether they meet the requirements of AML/CFT Law No. 9917, Articles 6, 11 & 16.

- Describe whether the AML/CFT controls and procedures in place are effectively working and leading to a result which is appropriate and compliant with all provisions of the Albanian AML/CFT Law.

- Describe whether the subject’s policies and procedures for law enforcement requests for information from foreign law enforcement authorities to the Albanian Prosecutor General meet regulatory requirements.

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**PHASE IV: Draft Inspection Report and Management Letter**

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**Draft Inspection Report**

The inspection report should contain any significant findings discovered during the inspection.

**Management Letter**

The management letter is used to present the results of the inspection to subject management. There are four points that have to be made in all management letters:

- Findings (issues). There should be clear descriptions of the issues that have been found by the inspector that have to be fixed.

- Why the findings have to be fixed (effect on company). The management letter should set out the effect of the issue on the subject.

- What has to be done (i.e., recommendations)? The subject’s management must be told what AFSAs expects to undertake in order to resolve the issue.

- Time frame. No recommendations should be made without a deadline by which the company must respond to the regulator.

The management letter should be issued and delivered by the regulators to the chief executive officer and the supervisory council chair, with a request that a copy be provided to the subject’s external auditor and compliance officer.

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**PHASE V: Follow-up Inspection**

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In case of issues raise that pose high risks or significant complexity, the subject should be visited after a reasonable period of time to perform a post-implementation (follow-up) inspection in order to verify and assure that the item is indeed and properly solved.

The follow-up inspection should be defined in the Management letter.

Its performance and program depends on the item that was raised. It shall basically repeat the inspection pertaining to the relevant item and provide in-depth certainty that the subject has taken appropriate steps to solve the issue.
Anti Money Laundering and Countering Financing of Terrorism Supervision Manual

Exhibit 8: Inspection Notes/Findings

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<td>SUBJECT:</td>
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<td>PREPARED BY:</td>
<td>DATE:</td>
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<td>REVIEWED BY:</td>
<td>DATE:</td>
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Background and general analysis

Types, Mix and Profitability of Business

Provide an overview of the types of risks insured and any new markets or niches the institution has entered, or is considering entering, into. Comment on any changes in the mix and location of business, and on any unusual trends noted.

Market Position and Strategy

Provide an overview of the institution’s market position, any changes in that position, its main competitors and whether it is a niche player or mainstream marketer. Comment briefly on product pricing - is it aggressive, competitive or passive? Comment on performance compared to that of its peers and how the product strategy fits into the overall corporate strategy. Comment on whether the strategy has changed compared to the previous year/inspection, and whether the strategy itself and the change in particular, pose an enhanced Money Laundering risk.

AML/CFT Risks

Provide an overview of the AML/CFT risks according to the AML/CFT Risk Matrix (Exhibit 3) above.

Quality of the AML/CFT Framework

Assess whether the institution has set up and effectively operates AML Framework, i.e. tone at the top, internal policies, definition of roles and responsibilities, appointment of an AML/CFT, training and awareness.

Organizational Structure and Staffing

Provide a high-level description of how the activity is organized, i.e., centralized, decentralized, and the appropriateness of its organization relative to the company's AML/CFT risk profile.

Risk Identification

Provide a high-level description of the methodologies used to identify AML/CFT risks in risk selection and rating.
Risk Control and Monitoring

Provide an assessment of the adequacy of AML/CFT key controls (policies and practices) over the activity’s AML/CFT risks. Identify the key controls reviewed, and comment on whether they are appropriate to and commensurate with the complexity of the activity and the level of AML/CFT risk. Comment on whether the controls are properly documented and communicated, operating effectively and being adhered to in practice, and subject to regular independent review. Briefly describe the effect of any identified control weaknesses or deficiencies on the activity.

Reporting

Comment on whether the content and frequency of regular reporting to Senior Management and the Board are adequate. Where weaknesses or deficiencies are noted, briefly describe how they might affect the ability of the Management to manage risks appropriately on a day-to-day basis.

Business functions carrying out AML/CFT controls

Provide an assessment of how effectively the business functions operate and carry out AML/CFT controls, whether these are duly documented according to the Albanian AML/CFT Law’s and AFSA provisions. Assess whether pending cases and material or formal gaps are followed up where necessary and closed.

AML/CFT Compliance

Provide an assessment of how effectively the AML/CFT Compliance function independently oversees the management of the activity’s compliance with the Albanian AML/CFT Law. Consider, among other things, the scope and frequency of oversight, whether it is focused on key areas of AML/CFT risk, whether its findings and conclusions are relevant to the effective operation of the activity, are communicated and escalated, as appropriate based on their significance, on a timely basis and actively followed up. Where weaknesses or deficiencies were noted in the characteristics of the function, comment on whether they affected the function’s performance in relation to this activity, or may affect performance in future.

Internal Audit

If relevant, provide an assessment of how well Internal Audit independently oversees the effectiveness of, and adherence to the activity’s AML/CFT key controls. Consider, among other things, whether it is focused on key risks and key controls, whether the scope and frequency of its oversight is sufficient in the circumstances to determine whether key risks are being managed effectively on an ongoing basis, whether its findings and conclusions are relevant to the effective operation of the activity and are based on an appropriate level of evaluation, and whether they are communicated and escalated, as appropriate based on their significance, on a timely basis and actively followed up. Where weaknesses or deficiencies were noted in the characteristics of the function, comment on whether they affected the function’s performance in relation to this activity, or may affect performance in future.
Senior Management

Provide an assessment of how well Senior Management oversees the effectiveness with which the activity is managed in terms of AML/CFT controls, monitoring and reporting. Consider, among other things, the effectiveness of its oversight of the activity’s AML/CFT risks, resources, adherence to policies, controls and ethical standards, and timely resolution of issues.

Board/Committees

Provide an assessment of how well the Board and/or its committees oversee the management and operations of the activity in terms of the AML/CFT framework and AML/CFT controls. Consider, among other things, how well the Board understands its key AML/CFT risks and key controls, the appropriateness of the nature and frequency of reporting it requires from the activity, given its nature, scope, complexity and risk profile, and its operating environment.

Use of the Work of Third Parties

Briefly describe how the work of third parties was used in the review (as applicable), and the rationale for using it. Identify the scope of the third party review and the findings and recommendations arising from it. Reference may be made to information provided by third parties to avoid excessive documentation.

Recommendations to the Institution

Set out the finding(s) and recommendation(s)/requirement(s)/suggestion(s) to be made to the institution, based on the review of the activity. Each finding should describe the specific issue, identify clearly the materiality of the issue to the activity, and discuss the consequences of not addressing it. The recommendation(s)/requirement(s) should set out what the AFSA expects the institution to do to address its concerns. The action(s) expected should be commensurate with the impact of the finding(s) on the activity’s risk profile.

For Future Inspections

Identify recommendations for future work in areas requiring supervisory follow-up or further investigation, as well as recommendations for enhancing the efficiency and effectiveness of future AML/CFT supervisory work.

Exhibit 9: Developing Conclusions & Finalizing the Inspection Notes

Objective: Formulate conclusions, communicate findings to management, prepare report comments, develop an appropriate supervisory response, and close the inspection.
Design of Conclusions

1. Collect all pertinent findings from the AML/CFT inspection procedures performed. Evaluate the thoroughness and reliability of any risk assessment conducted by the bank. Reach a preliminary conclusion as to whether the following requirements are met:

- The AML/CFT compliance program is effectively monitored and supervised in relation to the bank’s risk profile as determined by the risk assessment. The examiner should ascertain if the AML/CFT compliance program is effective in mitigating the insurer’s overall risk.

- The board of directors and senior management are aware of AML/CFT regulatory requirements, effectively oversee AML/CFT compliance, and commit, as necessary, to corrective actions (e.g., audit and regulatory inspections).

- AML/CFT policies, procedures, and processes are adequate to ensure compliance with applicable laws and regulations and appropriately address higher-risk operations (products, services, customers, entities, and geographic locations).

- Internal controls ensure compliance with the Law and provide sufficient risk management, especially for higher-risk operations (products, services, customers, entities, and geographic locations).

- Independent testing (audit) is appropriate and adequately tests for compliance with required laws, regulations, and policies. Overall audit coverage and frequency are appropriate in relation to the risk profile of the bank. Transaction testing is adequate, particularly for higher-risk banking operations and suspicious activity monitoring systems.

- The designated person responsible for coordinating and monitoring day-to-day compliance is competent and has the necessary resources.

- Personnel are sufficiently trained to adhere to legal, regulatory, and policy requirements.

- Information and communication policies, procedures, and processes are adequate and accurate.

All relevant determinations should be documented and explained.

Determine the Underlying Cause

2. Determine the underlying cause of policy, procedure, or process deficiencies, if identified. These deficiencies can be the result of a number of factors, including, but not limited to, the following:

- Management has not assessed, or has not accurately assessed, the bank’s AML/CFT risks.

- Management is unaware of relevant issues.

- Management is unwilling to create or enhance policies, procedures, and processes.

- Management or employees disregard established policies, procedures, and processes.

- Management or employees are unaware of or misunderstand regulatory requirements, policies, procedures, or processes.

- Higher-risk operations (products, services, customers, entities, and geographic locations) have grown faster than the capabilities of the AML/CFT compliance program.

- Changes in internal policies, procedures, and processes are poorly communicated.
3. Determine whether deficiencies or violations were previously identified by management or audit or were only identified as a result of this inspection.

**Discuss Findings with Supervisor in Charge and Identify Necessary Action**

4. Discuss preliminary findings with the inspector or inspector responsible for reviewing the insurer’s overall AML/CFT compliance. Document work papers appropriately with the following information:

- A conclusion regarding the adequacy of the AML/CFT compliance program and whether it meets all the regulatory requirements by providing the following:
  - A system of internal controls.
  - Independent testing for compliance.
  - A specific person to coordinate and monitor the AML/CFT compliance program.

- Training of appropriate personnel.

- A conclusion as to whether the written CIP is appropriate for the insurer's size, location, and type of business.

- Any identified violations and an assessment of the severity of those violations.

- Identification of actions needed to correct deficiencies or violations.

- If necessary, recommendations for supervisory actions. In addition, as necessary, confer with agency supervisory management, and agency legal staff of the subject.

- An appropriate rating based on overall findings and conclusions.

Findings that have been or will be discussed with bank management and, if applicable, any bank commitment for improvements or corrective action.

**Preparing the AML/CFT Comments for the Report of Inspection**

5. Document your conclusion regarding the adequacy of the insurer’s AML/CFT compliance program. Discuss the effectiveness of each of these elements of the insurer’s AML/CFT compliance program. Indicate whether the AML/CFT compliance program meets all the regulatory requirements by providing the following:

- A system of internal controls, including appropriate and current policies and procedures.
- Independent testing for compliance.
- A specific person to coordinate and monitor the AML compliance program.
- Training of appropriate personnel.

The AML/CFT compliance program must also include a written Consumer/Customer Identification Program (CIP) appropriate for the insurer’s size, location, and type of business.

*Note: The inspector does not need to provide a written comment on every one of the following items 6 through 11. Written comments should cover only areas or subjects pertinent to the inspector’s findings and
conclusions. All significant findings must be included in the ROE. The inspector should ensure that work papers are prepared in sufficient detail to support issues discussed in the ROE. To the extent that the
following items are discussed in the work papers, but not the ROE, the inspector should ensure that the work papers thoroughly and adequately document each review, as well as any other aspect of the company’s AML/CFT compliance program that merits attention, but may not rise to the level of being included in the ROE. The inspector should organize and reference work papers and document conclusions and supporting information within internal databases, as appropriate. As applicable, the inspector should prepare a discussion of the following items.

6. Describe whether the company’s policies and procedures for law enforcement requests for information under section 6 of the Albanian Law No. 9917 follows the regulatory requirements.

7. Describe the board of directors’ and senior management’s commitment to AML/CFT compliance. Consider whether management has the following:
   - A strong AML/CFT compliance program fully supported by the board of directors.
   - A requirement that the board of directors and senior management are kept informed of AML/CFT compliance efforts, audit reports, any compliance failures, and the status of corrective actions.

8. Describe whether the bank’s policies, procedures, and processes for SAR filings meet the regulatory requirements and are effective.

9. Describe whether the insurer’s policies, procedures, and processes for large currency transactions

10. Describe whether the policies, procedures, and processes include effective internal controls (e.g., separation of duties, proper authorization for sending and receiving, and posting to accounts), and provide a means to monitor transfers for CTR reporting purposes.

11. Describe the insurer’s recordkeeping policies, procedures, and processes. Indicate whether they meet the requirements of 31 CFR Chapter X.

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**Exhibit 10: Glossary of Terms**

**Albanian Financial Supervisory Authority (“AFSA”)** is the government entity responsible for regulating and supervising Albania’s non-banking financial system, and the operators of the sector. It is also the supervisory authority for companies involved in life insurance or reinsurance, their agents and intermediaries, as well as investment funds.

**Anti-Money Laundering (AML)** refers to the activities and controls applicable to insurance, financial institutions and other regulated entities to prevent and deter money laundering.
Anti Money Laundering and Countering Financing of Terrorism Supervision Manual

Anti-Money Laundering and Countering Financing of Terrorism ("AML/CFT") - Money Laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of criminal activities. Anti-Money Laundering (AML) is the sum of measures to prevent and deter money laundering. Terrorist financing is the financial support or sponsoring, in any form, of terrorism or of those who encourage, plan, or engage in terrorism. Countering Financing of Terrorism (CFT) is the sum of measures to prevent Financing of Terrorism.

Subjects supervised by the Authority for the purpose of anti-money laundering and/or the financing of terrorism are:
- Stock exchanges and any other subject (agent, broker, brokerage company, etc.) which conduct issuing, advising, mediation, financing and any other securities trading service;
- Companies which deal with Life insurance or reinsurance, agents or brokers, as well as pension funds.

Bank - A financial institution licensed as a receiver of deposits. There are two types of banks: commercial/retail banks and investment banks.

Beneficiary - Anybody who gains an advantage and/or profits from something. In the financial world, a beneficiary typically refers to someone who is eligible to receive distributions from a trust, will or life insurance policy. Beneficiaries are either named specifically in these documents or they have met the stipulations that make them eligible for whatever distribution is specified. Note: the terms Beneficiary and (Ultimate) Beneficial Owner are not the same.

Beneficial owner means in relation to an entity, a person (or second entity) who has an economic interest in, (or is entitled to exercise control over the assets thereof), that entity, whether through shareholding(s), partnership interest(s) interest(s) under a trust or otherwise. Note: beneficial owner is not the same as a beneficiary.

Broker - Refers to an independent insurance intermediary (firm or individual) acting in the interest of its clients. An insurance broker is due to select products amongst different insurance providers, based on the needs and financial circumstances of its clients. In most countries, insurance brokers have to be licensed and work on a commission basis.

Covered Product - A "covered product" for purposes of AML/CFT compliance includes: (a) A permanent life insurance policy, other than a group life insurance policy; (b) Any annuity contract, other than a group annuity contract; and (c) Any other insurance product with features of cash value or investment.

Currency Transaction Report ("CTR") - A report that financial institutions are required to file with the local financial intelligence unit (FIU) for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution which involves a transaction in currency exceeding a certain threshold.

Customer is a natural person or entity that purchases an insurance product or other services from a company.

Customer Due Diligence ("CDD"), often referred to as "know you customer" (KYC), is the procedure of verifying the identity of the customer and/or beneficial owner, and the purpose and circumstances of the business, and ongoing scrutiny of transactions and, where necessary, the source of funds.

21 specified in Article 3, items e) and é) under Law No. 9917, dated 19.05.2008 “On anti-money laundering and countering financing of terrorism”, as well as Article 3, Regulation 58, dated 30.06.2015 “On Due Diligence and Enhanced Due diligence measures by subjects of law on anti-money laundering and financing terrorism”, as amended.
Customer Identification Program ("CIP") is a requirement where financial institutions need to verify the identity of individuals wishing to conduct financial transactions with them.

Enhanced Due Diligence ("EDD") – Indicates a higher level of Due Diligence, specifically for higher-risk customers, i.e. customers that pose higher money laundering or terrorist financing risks present increased exposure; due diligence policies, procedures, and processes should be enhanced as a result.

Financial Action Task Force ("FATF") refers to an inter-governmental body established in 1989 to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

Financial and/ Credit Institution means an entity whose principal activity is to acquire holding or to carry on banking, credit, insurance, investment or other activities of a type that are ordinarily subject to regulation by financial services regulator in the jurisdiction in which the entity operates.

Financial Intelligence Unit (FIU) is a national agency responsible for receiving, analyzing and transmitting disclosures on suspicious transactions to other competent authorities, such as Fin CEN (USA), SFO (UK). Albania’s FIU is the General Directorate for the Prevention of Money Laundering (GDPML).

Financing - The act of providing funds for business activities, making purchases or investing.

General Directorate for the Prevention of Money Laundering (GDPML) – the Albanian government’s Financial Investigations Unit, or “FIU.”

Government Issued Identification Number means for individuals and entities the number of a valid government-issued photo identification document certifying the existence of the individual or entity (e.g., passport or driver’s license).

Gross Written Premium ("GWP") - the sum of both direct premiums written and assumed premiums written before the effect of ceded reinsurance. Direct premiums written represent the premiums on all policies the company’s insurance subsidiaries have issued during the year. Assumed premiums written represent the premiums that the insurance subsidiaries have received from an authorized state-mandated pool or under previous fronting facilities.

Insurance company – according to Law no. 52/2014 “on the insurance and reinsurance activity” an insurance company is a judicial entity licensed to exercise the insurance business and other activities directly or indirectly related to insurance as defined by the law.

Inspection – the process of reviewing the regulatory compliance of insurance companies by AFSA inspectors (or examiners). This process is sometimes called “examination.”

International Association of Insurance Supervisors (“IAIS”) - Established in 1994, the IAIS represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries, constituting 97% of the world’s insurance premiums. Its objectives are to: (1) Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to (2) Contribute to global financial stability.

Know your customer ("KYC") is the due diligence that banks, broker-dealers, insurance companies, and other regulated financial companies must perform to identify their clients and ascertain relevant information pertinent to doing financial business with them, in compliance with relevant laws and regulations. ‘Know your customer’ policies have become increasingly important globally to prevent identity theft, fraud, money laundering and terrorist financing.
Money Laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of criminal activities. If successful, the money can lose its criminal identity and appear legitimate. The object of a money launderer is to place money in the financial system without arousing suspicion; move the money around, often in a series of complex transactions and crossing multiple jurisdictions, so it becomes difficult to identify its original source; and then move the money back into the financial and business environment, so that it appears as legitimate funds or assets.

Policyholder is a person or company that subscribes or purchases an insurance policy

Policy refers to the formal document reflecting a formal relationship established by an insurance company to provide insurance products or services to customers.

Politically Exposed Person ("PEP") refers to individuals who are or have been entrusted with prominent public functions (e.g. heads of state or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials, directive leading roles in international organizations). Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

The term PEP also entails so-called Senior Political Figures (see below definition).

Premium is the payment, or one of the regular periodic payments, that a policyholder makes to an insurer in exchange for the insurer’s obligation to pay benefits upon the occurrence of a contractually specified contingency.

Risk Based Approach – the identification money laundering risks allows a determination and implementation of appropriate and proportionate measures and controls to mitigate these risks. As a result, the actual impact of an AML/CFT policy may differ depending on the risks determined by affected subsidiaries, business segments, divisions, units and functional areas.

Senior Political Figure – (Part of the definition of “PEP” – see above definition) A senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned corporation. In addition, a senior foreign political figure includes any corporation, business, or other entity that has been formed by, or for the benefit of, a senior foreign political figure.

The "members of the family" of a senior foreign political figure typically include the figure’s parents, siblings, spouse, children, and in-laws. An “associated persons” of a senior foreign political figure is a person who is widely and publicly known to maintain an unusually close relationship with the senior foreign political figure, and includes a person who is in a position to conduct substantial domestic and international financial transactions on behalf of the senior foreign political figure.

The definition of senior official or executive must remain sufficiently flexible to capture the range of individuals who, by virtue of their office or position, potentially pose a risk that their funds may be the proceeds of foreign corruption. Titles alone may not provide sufficient information to determine whether an individual is a PEP because governments are organized differently from jurisdiction to jurisdiction. In those cases when a company files a SAR concerning a transaction that may involve the proceeds of foreign corruption, the General Directorate has instructed companies to include the term “foreign corruption" in the narrative portion of the SAR. Companies should establish risk-based controls and procedures that include reasonable steps to ascertain the status of an individual as a PEP, and to conduct risk-based scrutiny of accounts held by those individuals. Risk will vary depending on other factors such as geography, products and services used and size or complexity
of the account relationship. Companies also should consider various factors when determining if an individual is a PEP including:

- Official responsibilities of the individual’s office.
- Nature of the title (e.g., honorary or salaried).
- Level and nature of authority or influence over government activities or other officials.
- Access to significant government assets or funds.

In determining the acceptability of higher-risk accounts, a company should be able to obtain sufficient information to determine whether an individual is, or is not a PEP. For example, when conducting due diligence on a higher-risk account, it would be usual for a company to review a customer’s income sources, financial information, and professional background. These factors would likely require some review of past and present employment, as well as general references that may identify a customer’s status as a PEP.

**NOTE:** A company should always keep in mind that identification of a customer’s status as a PEP should not automatically result in a higher-risk determination; it is only one factor the company should consider in assessing the risk of a relationship.

Ascertaining whether a customer has a close association with a senior foreign political figure can be difficult, although focusing on those relationships that are "widely and publicly known" provides a reasonable limitation on expectations to identify close associates as PEPs. However, companies having actual knowledge of a close association should consider their customer a PEP, even if such association is not otherwise widely or publicly known. Companies are expected to follow reasonable steps to ascertain the status of an individual; federal agencies and the General Directorate recognize that these steps may not uncover all close associations.

**Suspicious or Unusual Transaction** – A transaction is suspicious if the insurer (or any other regulated financial intermediary) has reasonable grounds to believe that the funds derive from an illicit source. A transaction is unusual when it does not fall into the usual scheme of transactions effected to or from the regulated financial intermediary.

**Suspicious Activity Report ("SAR")** is a report regarding unusual (potentially suspicious) or suspicious activities/transactions that an AML/CFT officer is required to file with the appropriate local authorities, i.e., General Directorate for the Prevention of Money Laundering (GDPML/CFT).

**Suspicious Transaction Report ("STR"), See Suspicious Activity Report (SAR) above**

**Terrorist Financing** is the financial support or sponsoring, in any form, of terrorism or of those who encourage, plan or engage in terrorism.

The term “**Terrorist Financing**” is defined in the OPMLTF and AMLO and means:

(a) the provision or collection, by any means, directly or indirectly, of any property-

(i) with the intention that the property be used; or

(ii) knowing that the property will be used, in whole or in part, to commit one or more terrorist acts (whether or not the property is actually so used); or

(b) the making available of any property or financial (or related) services, by any means, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate; or
(c) the collection of property or solicitation of financial (or related) services, by any means, directly or indirectly, for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate

**Underwriting** is the process in which an insurance company determines whether and for what premium it will accept an application for insurance.

**Viatical settlement** is the sale of a life insurance policy by the policy owner before the policy matures. Such a sale, at a price discounted from the face value of the policy, but usually in excess of the premiums paid or current cash surrender value, provides the seller an immediate cash settlement. Generally, viatical settlements involve insured individuals with a shorter life expectancy. It is a practical way to pay extremely high health insurance premiums that face severely ill people with a short life expectancy.

"Management Company" means a joint-stock company established under the laws of the Republic of Albania, the regular and sole business of which is the establishment and/or management of investment funds and investment companies in compliance with Law No. 10198, dated 10.12.2009 "On Collective Investment Undertakings".

"Investment Fund", means an open-ended undertaking established by contract, offering unit to the public in compliance as prescribed in Article 54 and other provisions of Law No. 1098, dated 10.12.2009 "On collective investment undertakings".

"Custodian" is a licensed second-tier bank appointed by the management company which, on the basis of an agreement with the management company and upon its order, carries out the activity as custodian in compliance with Law No. 9879, dated 21.2.2008 "On Securities".

"Depositary" means a licensed commercial bank appointed by the management company and which, under an agreement with a Management Company and upon its order, acts as a Depositary, in accordance with Law No. 9879 of 21 February 2008 "On Securities";

"Voluntary Pension Fund", hereinafter called “pension fund” means a pool of assets owned by pension unit-holders, in accordance with Law no. 10197, dated 10.12.2009 "On Voluntary Pension Funds".