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THE RISK OF MONEY LAUNDERING: OVERVIEW THROUGH THE OPERATIONS OF INSURANCE COMPANIES

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The expandance of global integration processes in the world economy in recent years has created favorable conditions for criminal structures for money laundering [10]. This issue became extremely acute on the background of the growing size of the shadow economy in Ukraine [12, 27]. Nowadays, scientists mostly pay attention to the using of banking operations to money laundering. Instead, very small attention is paid to money laundering through insurance companies [21]. Therefore, it is important to identify and describe the risk of money laundering through the operations of insurance companies [14, 7].

Given the specifics of insurance operations and services other non-bank financial institutions, the level of their involvement in the process of money laundering proceeds also differs. The highest level of involvement in legalization among financial institutions is typical for banks [2, 9]. For example, in the first three quarters of 2020, the State Financial Monitoring Service registered 43,226,226 notifications of financial transactions subject to financial monitoring. Of these, 4281902 notifications were received from banking institutions and just 43920 from non-bank financial institutions and organizations and 404 notifications were received from specially designated subjects of primary financial monitoring [23, 24, 1, 9, 11].

At the same time, it is fair to say that the most popular non-bank financial activities among fraudsters are the operations of insurance companies [28]. In Ukraine, the market of insurance services is relatively young and dynamically developing. According to National Commission for State Regulation of Financial Services Markets only in the first quarter of 2020, the volume of gross insurance premiums amounted to UAH 11.549 billion, and insurance payments – UAH 3.750

billion [16]. The National Bank of Ukraine in the Review of the non-banking sector states an increase in the level of payments from 25% to 30% by insurance companies, which characterizes the growth of the insurance services market in Ukraine [15, 8, 3, 13]. The low level of control over the operations of insurers, a large number of insurance companies in Ukraine, the possibility of using one company at once three risk-sharing instruments: life insurance, general insurance and reinsurance makes the insurance sector attractive for money launderers [18, 6, 17].

We describe the risk of money laundering through the life insurance. The most risky in this case are operations:

1) Acquisition of a single premium policy. Under this type of life insurance, the assurer pays the insurer a lump sum in exchange for a guarantee of payment in the event of reaching the age under the contract or in the event of death. This method allows money launderers to get rid of a large amount of money momentally, and after some time to get an insurance payment in the form of "net" money.

2) Obtaining an annuity. Money laundering is carried out upon receipt by the subject of legalization of insurance payments, after payment of insurance premiums with "dirty" money.

3) Buying insurance policies with lots of small regular premiums to avoid undue attention. It is possible, as financial monitoring is usually of interest to large sums of money.

4) Deliberate overpayment of premiums or return of premiums by insurance companies directly to the assurer's bank account [19].

5) Replacement of the beneficiary. Currently, the number of beneficiaries of life insurance is not limited legally . It is also possible to change the beneficiary in the process of insurance. This vulnerability leads to stratification of money when receiving insurance benefits [5].

6) Return of the policy. Legalization entities can return their policies with losses, to return their deposited money.

Life insurance has larger risk of money laundering than general insurance. The main reason for this is the investment nature of life insurance. Yes, the premium paid by the policyholder in general risk insurance is related to a specific type of risk and the type of risk covered by the policy. As a rule, such insurance is limited to the potential return of an unfinished or unused premium. Non-residential goods do not have accumulated monetary or investment value. However, these restrictions do not exclude the risk of using this type of insurance for money laundering.

Examples of the use of general insurance can be:

a) using of funds obtained illegally for the payment of premiums or significant overpayment of premiums, followed by a request for a refund of both full and overpaid amount.

b) insurance of movable or immovable assets for illegal funds, further intentional damage to the asset and obtaining compensation under the policy [22].

c) using of pseudo-insurance contracts. With this type of insurance, companies seek to "avoid" risks, the probability of which is minimal or almost zero. After concluding a contract, part of the sum insured paid by related parties in the insurance company is converted into cash and returned to the managers of the enterprise. In addition, this scheme is used by companies to evade taxation by reducing the tax burden [20].

d) using of fictitious insurance of financial risks. In this case, fraudsters are easily forging insurance cases for financial risks. For example, if the receipt of funds under the supply contract was insured and such an insured event occurs within a very short period of time after the singing of the contract [4].

Reinsurance should be mentioned separately. Reinsurance has a significant risk of being used in the process of money laundering. One of the main threats is the withdrawal of capital from the country through reinsurance companies. As quite often national insurance companies due to significant risks are forced to reinsure in foreign insurance companies, which is used by fraudsters [25, 26].

The risk of money laundering through insurance transactions is underestimated and insufficiently studied. This is evidenced by the low number of suspicious transactions from non-bank financial institutions and the large number of vulnerabilities in insurance to build schemes to legalize illegal income. Imperfect regulatory requirements in this area can be traced. Therefore, government regulators should make additional efforts to manage and reduce the risk of using the operations of insurance companies.

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