

Pursuant to Article 6, paragraphs 2 and 3, subparagraph 4, Article 7, paragraph 2, subparagraph 7 of the Law on Insurance Companies (Official Gazette of the Republic of Srpska, Nos. 17/05, 01/06, 64/06, 74/10, 47/17, and 58/19), Article 93, paragraph 1, point c) and d), in connection with Article 101, paragraph 2 of the Law on Prevention of Money Laundering and Financing of Terrorist Activities (Official Gazette of Bosnia and Herzegovina, No. 13/24), Article 22, paragraph 7, point 6 of the Statute of the Insurance Agency of the Republic of Srpska (Official Gazette of the Republic of Srpska, Nos. 2/15, 76/16, 89/19, and 35/21), and Article 40, paragraph 1 of the Rulebook on the Procedure for Risk Assessment of Money Laundering and Financing of Terrorist Activities (Official Gazette of the Republic of Srpska, No. 114/24), the Director of the Insurance Agency of the Republic of Srpska has issued:

**Guidelines for the Analysis and Assessment of Risks
of Money Laundering and Financing of Terrorist Activities in
the Field of Insurance and Voluntary Pension Insurance**

1. GENERAL PROVISIONS

1.1. Subject

These guidelines are intended for obliged entities in the field of insurance and voluntary pension insurance, which are supervised by the Insurance Agency of the Republic of Srpska (hereinafter: the Agency), to facilitate understanding and uniform application of the provisions of the Law on Prevention of Money Laundering and Financing of Terrorist Activities (hereinafter: the AML/CFT Law) and the subordinate regulations issued based on it, relating to the implementation of the procedure for assessing the risks of money laundering and financing of terrorist activities.

1.2. Obligated Entities

1.2.1. The obliged entities required to implement the measures, actions, and procedures set out in these guidelines are:

- 1) insurance companies authorized to carry out life insurance operations;
- 2) insurance intermediaries and agents engaged in mediation or representation in insurance when concluding life insurance contracts and other investment-linked insurance, with the exception of insurance agents representing life insurance on behalf of and for the account of an insurance company; and
- 3) management companies of voluntary pension funds.

1.2.2. In performing life insurance, investment-linked insurance, and voluntary pension insurance activities, the entities listed under point 1.2.1 are required to develop and regularly update a risk analysis (hereinafter: risk analysis) in accordance with the AML/CFT Law and the subordinate regulations issued based on it, the National Risk Assessment of Money Laundering, Terrorist Financing, and Proliferation of Weapons of Mass Destruction in Bosnia and Herzegovina (hereinafter: NRA), the Rulebook on the Procedure for Risk Assessment of Money Laundering and Financing of Terrorist Activities (hereinafter: AML/CFT Rulebook), and these guidelines, ensuring that all business operations are conducted in compliance with the same.

1.2.3. In the course of carrying out its activities, the obliged entity conducts a risk analysis for each group or type of client, business relationship, transaction, product/service, and distribution channel, with the aim of determining the criteria based on which a particular client, business relationship, product/service, or transaction is classified into one of the risk categories prescribed by the Law on AML/CFT.

1.2.4. The obliged entity is required, when identifying and assessing the risk of money laundering and financing of terrorism (hereinafter: ML/FT risk), to timely include the ML/FT risk arising from the introduction of new products/services or significant modifications to existing products/services.

1.2.5. The general part of these guidelines applies to all obliged entities referred to in subparagraph 1.2.1 of this section, while the specific part of these guidelines related to particular risk factors applies to those obliged entities to which that part pertains, taking into account the specific circumstances of the obliged entity concerning the risk of clients, business relationships, transactions, and products/services provided by the obliged entity in the course of its activities, including the manner of establishing the business relationship, distribution channels, country, and geographic area.

2. RISK ASSESSMENT

2.1. Risk Assessment and Risk Management

2.1.1. In order to fulfil the obligations prescribed by the Law on AML/CFT, the obliged entity shall assess:

- 1) the ML/FT risk to which it is exposed due to the nature and complexity of its business (overall business risk assessment), and
- 2) the ML/FT risk to which it is exposed due to entering into business relationships or conducting occasional transactions (individual risk assessment).

2.1.2. The ML/FT risk assessment consists of:

- 1) identifying and determining the ML/FT risk factors, and
- 2) assessing the ML/FT risk.

2.1.3. When assessing and managing ML/FT risk associated with a business relationship and occasional transactions, the obliged entity shall include the following:

- 1) an assessment of the overall business regarding the products/services offered, types and profiles of clients, number, size, and frequency of transactions, distribution channels, country, and geographic area;
- 2) a customer due diligence analysis, including the initial due diligence carried out before establishing the business relationship or executing an occasional transaction, the scope and type of which are determined based on the findings and the overall business risk assessment;
- 3) consideration, identification, and determination of all relevant risk factors related to the specific business relationship and occasional transaction, including any additional customer due diligence measures and all available information; and
- 4) regular updating and review of the conducted risk assessments, monitoring of transactions, and, if necessary, examination of the source of funds, as well as control and review of the

conducted risk assessments in order to determine changes in the risk of the business relationship.

2.2. Risk Analysis and Risk Assessment Factors

2.2.1. When identifying ML/FT risk, the obliged entity shall take into account the following risk factors:

- 1) client risk factors and the risk factors of the client's beneficial owner;
- 2) product, service, and transaction risk factors;
- 3) country and geographic area risk factors;
- 4) distribution channel risk factors.

2.2.2. The risk analysis shall be proportionate to the nature and scope of the business, as well as the size of the obliged entity, and shall consider at a minimum the risk factors of the client, product/service or occasional transaction, country, geographic area, and distribution channel.

2.2.3. The obliged entity shall define, by internal act, the risk factors it will use and apply. When defining risk factors, it shall consider the risk factors prescribed by the Law on AML/CFT and these guidelines. The risk factors prescribed by these guidelines do not constitute a definitive list and shall be considered in accordance with the circumstances of each individual case and the specificities of the obliged entity's business.

2.2.4. The obliged entity shall establish a comprehensive approach to risk related to the circumstances of its individual business relationship or occasional transaction and shall also take into account other risk factors identified due to the specificities of its business, which do not necessarily increase or decrease the risk category, except in cases provided for under Article 29 of the Law on AML/CFT.

2.2.5. Based on the conducted risk analysis and the measures taken to mitigate risk, the obliged entity shall assess its overall risk exposure using the following ratings: low, medium, or high.

2.2.6. The risk analysis regarding the overall business and the risk analysis aimed at classifying a client into one of the risk categories shall be based on all relevant information.

2.3. General Risk Factors

Client and Beneficial Owner Risk Factors

2.3.1. The risk factors indicating a higher risk related to the client and the client's beneficial owner are as follows:

- 1) the client's and beneficial owner's business activity or professional occupation:
 - engaged in activities in the construction sector, real estate transactions, trade and manufacture of weapons, trade in high-value goods such as precious metals, gemstones, automobiles, artworks, etc.; and

- have a high cash turnover, such as casinos, gas stations, car dealerships, travel agencies, restaurants, currency exchange offices, retail stores, car washes, pharmaceutical sector, etc.;

2) Reputation of the client and the client's beneficial owner, representative, or authorized person:

- there is negative media coverage or other relevant information regarding involvement in ML/FT criminal activities or predicate offenses;
- during the business relationship, they are identified on lists of persons subject to restrictive measures or are closely connected personally or professionally with such persons;
- they have been reported for suspicious transactions to the State Investigation and Protection Agency or to the Financial Intelligence Department (hereinafter: FIU);
- in the last three years, the FIU has requested from the obliged entity information regarding them or has issued a written order for business monitoring, temporary suspension of transactions, etc.;

3) Nature and behaviour of the client and the client's beneficial owner, representative, or authorized person:

- the client is not physically present with the obliged entity when establishing and verifying their identity, and
- the client avoids providing all necessary identity evidence without objective reasons, or there is suspicion regarding the identity of the client or the beneficial owner.

4) The client's business activity or transactions are carried out under unusual circumstances:

- there is a significant and unexpected distance between the client's location and the organizational unit of the obliged entity where the client establishes a business relationship or conducts a transaction;
- frequent and unexpected establishment of similar types of business relationships with multiple obliged entities, without economic justification;
- the client uses products/services in a manner not identified during the procedure at the time the business relationship was established;
- the client is a non-resident and the services requested from the obliged entity would be more appropriately provided in another country, or there is no economic rationale for the type of service requested;
- there is suspicion that the client is not acting on their own behalf, i.e. there is suspicion that they are acting on the instructions of a third party; and
- the client may potentially be used as a vehicle for holding personal assets or as a means of obtaining access to financial services by a company that is not permitted to conduct commercial, manufacturing, or other activities in the country where it is registered, or by a company headquartered in Bosnia and Herzegovina that is 25% or more owned by a foreign legal entity that does not conduct or is not permitted to conduct commercial, manufacturing, or other activities in the country where it is registered;

- 5) Ownership or organizational structure of the client or the client's beneficial owner:
- due to the organizational structure, legal form, or complex, non-transparent and unclear ownership relationships, it is difficult to determine and verify the identity of the client's beneficial owners or persons managing them;
 - there are no reasonable grounds for changes in the client's ownership structure;
 - the client or the client's beneficial owner is a non-profit organization that may be used for the purpose of financing terrorist activities; and
 - the client or the client's beneficial owner is an entity with a disproportionately small number of employees compared to the volume of business/declared turnover and/or an entity that lacks its own infrastructure, business premises, etc.;
- 6) the client or the client's beneficial owner is an offshore legal entity or a person related to a foreign legal entity;
- 7) the client or the client's beneficial owner is a politically exposed person within the meaning of Article 4, paragraph 1, points r, s, and t of the Law on AML/CFT, or a member of the immediate family of such a person or a close associate;
- 8) the client or the client's beneficial owner, a subsidiary of the client, or the client's parent company provides financial services or services related to digital assets for whose establishment no license from the competent supervisory authority is required and which is not subject to AML/CFT supervision in accordance with applicable regulations, or is an entity established in a manner that enables, directly or indirectly, the concealment of the identity of founders/investors.

Product, Service and Transaction Risk Factors

2.3.2. The risk factors indicating a higher risk related to a product, service, or transaction are as follows:

- 1) the purpose of the business relationship;
- 2) the duration of the business relationship;
- 3) the value of the service or the volume of executed transactions;
- 4) the level of transparency of the product/service or transaction: the extent to which the product/service or transaction enables anonymity of the client, beneficial owner, or ownership structure of the client, and whether there is a possibility for a third party to give instructions in connection with that relationship;
- 5) new products and new business practices, including new delivery mechanisms and the use of new or developing technologies for both new and existing products;
- 6) services that are new to the market, i.e. not previously offered in the financial sector, which shall be specifically monitored in order to determine the actual level of risk;
- 7) the complexity of the product/service or transaction:
 - a transaction is considered complex if multiple clients or multiple different legal systems are involved in the business relationship;
 - whether the transactions are occasional or regular, and whether they have economic justification;

- the extent to which payment for products/services by third parties is permitted or whether excessive payments are allowed where this is not customary, whether payment by a third party is expected, and whether the obliged entity knows the identity of that third party;
- 8) The value or volume of the product, service, or transaction:
- the extent to which the products/services depend on cash;
 - the use of services related to virtual currencies;
 - whether they encourage high-value transactions;
 - whether there are transaction value limits;
 - transactions that deviate from the client’s standard pattern of behaviour; and
 - documentation that does not correspond to the manner in which the transaction is carried out.

Country and Geographic Area Risk Factors

2.3.3. The risk factors indicating a higher country and geographic area risk are as follows:

1) Countries and geographic areas in which the client and the client’s beneficial owner are established and/or conduct business activities and/or have relevant personal ties, business connections, financial or legal interests:

- the country is not a member of the EU;
- it does not implement relevant EU Directives;
- the country is subject to sanctions, embargoes, or similar measures imposed by relevant international organizations such as the United Nations, the Council of Europe, etc.;
- there are credible sources indicating that FATF, the Council of Europe, the IMF, the World Bank, etc., have determined that the country does not have adequate AML/CFT laws, regulations, and other measures, that it finances or supports terrorist activities, or that identified terrorist organizations operate within its territory;
- there is a significantly low level of effectiveness in combating corruption, crime, tax evasion, and other criminal offenses;
- the country has been designated by FATF as a non-cooperative country or territory;
- the ability of the country’s judiciary to effectively prosecute criminal offenses related to corruption, organized crime, tax evasion, fraud, property crime, or other criminal offenses;

2) the client is a foreign financial institution established in another country or a provider of digital asset-related services headquartered in another country;

3) if the funds used in the business relationship originate from abroad, the effectiveness of the AML/CFT system of that country should be assessed; if the funds are received from a country known for the presence of terrorist organizations or are sent to such a country, consideration should be given to the extent to which this may raise suspicion of ML/FT, based on the obliged entity’s knowledge of the purpose and nature of the business relationship;

4) the level of transparency of a particular country and its tax compliance framework:

- If the client is a trust or an entity established under foreign law, the country’s compliance with international tax transparency standards should be verified, where applicable.
- Based on credible sources, such as official websites of international bodies and/or mutual evaluations or published follow-up reports, consideration should be given to the extent to which countries meet AML/CFT requirements in accordance with the FATF Recommendations and whether they implement them effectively.

Distribution Channel Risk Factors

2.3.4. The risk factors indicating a higher distribution channel risk are as follows:

1) Assessment of the distribution channels used by the obliged entity:

- the client is not present at the time of identification;
- online distribution of products/services;
- the possibility of misrepresentation and identity misuse;
- the identity of third parties performing customer identification and due diligence, and whether they belong to the same group;
- whether reliance can be placed on the quality of measures undertaken by the third party; and
- whether third parties are subject to adequate supervision;

2) The presence of introducers:

- if identification was carried out by intermediaries, the nature of their relationship with the client;
- whether the intermediary is an obliged entity required to implement AML/CFT measures;
- whether the intermediary is subject to effective supervision;
- whether the intermediary is established in a country associated with a higher ML/FT risk; and
- whether the intermediary has collected sufficient information on the client and on the level of risk associated with the business relationship and transaction.

2.4. Specific Risk Factors Related to Life Insurance

2.4.1. Insurance companies licensed to conduct life insurance business and insurance brokerage companies, when carrying out intermediation activities in life insurance and investment-related insurance, shall, for AML/CFT purposes, specifically identify risks indicating suspicious transactions and manage such risks in a manner that prevents activities which could be characterized as ML/FT.

Client and Beneficial Owner Risk Factors

2.4.2. Client risk implies the assessment of whether the client of an insurance company or an insurance brokerage company is associated with a higher risk of ML/FT. For the purposes of this provision, the term “client” shall include the policyholder, the beneficial owner, and the beneficiary under life insurance policies and other investment-related insurance policies, as prescribed by Article 20 of the Law on AML/CFT.

2.4.3. Risk factors indicating a higher risk relating to the customer and the customer's beneficial owner are as follows:

1) Nature of the customer:

- a complex ownership structure that makes it difficult to identify the customer's beneficial owners,
- the customer and/or the customer's beneficial owner is a politically exposed person (PEP),
- a change of the insurance beneficiary shortly before the expiry of the policy,
- the policyholder designates multiple different persons as insurance beneficiaries, and
- an unusual age of the insured person for the type of product requested.

2) The customer's behaviour in relation to the policy, the insurance beneficiary, and payments:

- the policy (insurance contract) is not consistent with the customer's financial capacity,
- the customer's occupation or business activity is considered high-risk in terms of association with money laundering (e.g., cash-intensive businesses or activities exposed to a high risk of corruption),
- the customer transfers the policy to another insurance company without providing justification,
- frequent and unexplained surrenders with a request that payments be made to different bank accounts,
- the customer accepts high costs by requesting early termination of the policy,
- the customer concludes a large number of policies with different insurance companies within a short period of time,
- the customer assigns the policy to an unrelated third party,
- an unusual request by the customer to change or increase the sum insured and the premium, insisting on long-term duration,
- the insurance company becomes aware of a change of beneficiary only upon submission of a claim,
- the customer changes the beneficiary and seeks to designate an unrelated third party,
- the insurance company, the customer, the customer's beneficial owner, the beneficiary, or the beneficiary's beneficial owner are located in different countries,
- the customer uses unusual methods of payment or instruments that enable anonymity,
- the premium is paid from different accounts without explanation,
- payments are made from banks/financial institutions that are not established or do not operate in the customer's country of residence,
- the customer unexpectedly makes more frequent payments or high-value payments, and
- payments are received from unrelated third parties.

2.4.4. Customer risk factors indicating lower risk are:

- 1) the customer is an obliged entity required to implement AML/CFT measures, subject to supervision regarding the application of the AML/CFT Law and other regulations by a competent authority or agency established under special legislation; and
- 2) the customer is a state authority, institution, public enterprise, or an entity established by state authorities or institutions.

Product, Service and Transaction Risk Factors

2.4.5. Product, service and transaction risk factors indicating higher risk:

- 1) life insurance or investment-linked insurance products that are new to the market, i.e. have not previously been offered and shall be specifically monitored in order to determine the actual level of risk;
- 2) an insurance product that enables:
 - payments from third parties whose identity have not been established,
 - high-value or unlimited transaction amounts,
 - single high-value premium payments upon conclusion of a multi-year policy,
 - cash payments,
 - easy access to accumulated funds, allowing partial withdrawals or early surrender of the policy at any time, with limited fees or costs,
 - trading on the secondary market,
 - use as collateral for loan repayment,
 - anonymity, i.e. facilitates or allows anonymity of the policyholder, beneficial owner or beneficiary, and
 - transactions that deviate from the customer's standard behaviour.

2.4.6. Product, service or transaction risk factors indicating lower risk:

- 1) the sum insured is paid out only in the event of the insured's death or on a specified date, as is the case with a life insurance policy for debt repayment, covering consumer and mortgage loans, where payment is made only upon the death of the insured;
- 2) the policy has no surrender value;
- 3) the product has no investment component;
- 4) there is no possibility for the insurance premium to be paid by third parties;
- 5) the product requires that total contributions be limited to a low value;
- 6) the life insurance policy has a low premium;
- 7) the product allows only regular low-value premium payments, i.e., overpayment is not allowed;
- 8) it is not possible to surrender the policy in the short or medium term;
- 9) the policy cannot be used as collateral; and

10) Cash payments are not allowed.

Country and Geographic Risk Factors

2.4.7. Geographic risk exists if a transaction related to an insurance product is conducted through a high-risk country, or if a person involved in that transaction is a resident of a high-risk country.

2.4.8. Country or geographic risk factors indicating higher risk:

- 1) the customer and the customer's beneficial owner are headquartered or reside in a country associated with a higher risk of ML/TF;
- 2) premiums are paid through accounts opened with financial institutions established in a country associated with a higher risk of ML/TF;
- 3) the beneficial owner of the insurance intermediary or agent is headquartered in or connected to a country associated with a higher risk of ML/TF.

2.4.9. Country or geographic risk factors indicating lower risk:

- 1) countries are identified from reliable sources, such as mutual evaluations or detailed assessment reports, in terms of having effective systems for ML/TF;
- 2) countries are identified from reliable sources as having low levels of corruption and other criminal activities.

Distribution Channel Risk Factors – Use of Insurance Intermediaries and Agents

2.4.10. Risk factors related to the use of insurance intermediaries and agents indicating higher risk:

- 1) conclusion of a policy without the physical presence of the customer, via the internet, without adequate safeguards such as electronic signatures or electronic identification documents;
- 2) long chains of insurance intermediaries and agents; and
- 3) the intermediary or agent conducts activities simultaneously in areas that are significantly geographically distant.

2.4.11. Risk factors related to the use of insurance intermediaries and agents indicating lower risk:

- 1) intermediaries and agents are well-known to the insurance company, which is satisfied that they apply customer due diligence and monitoring measures proportionate to the risk associated with the business relationship; and
- 2) the product is available only to employees of certain legal entities that have a contract with the insurance company for their employees as part of benefits.

2.5. Specific Risk Factors Related to Voluntary Pension Insurance

2.5.1. Customer risk implies an assessment of whether the customer with whom the management company of the voluntary pension fund cooperates is associated with a higher risk of ML/TF. The term "customer" refers to a natural or legal person who concludes a membership agreement with the fund, i.e., a pension plan contract, as well as the contributor of pension contributions on behalf of a fund member.

Customer and Beneficial Owner Risk Factors

2.5.2. Customer and beneficial owner risk factors indicating higher risk:

- 1) a customer who conducts business activity or transactions under unusual circumstances, which includes:
 - establishing a business relationship without economic justification, such as concluding multiple membership agreements with a voluntary pension fund in a short period, regardless of whether they are with one or more management companies;
 - amending a voluntary pension fund membership agreement for an unusually high increase in contribution amounts;
 - unwillingness to provide information for conducting due diligence on the customer and the beneficial owner;
 - frequent and unexpected transfers of funds from one voluntary pension fund to another;
 - frequent changes of due diligence information or payment details;
 - joining a voluntary pension fund and making high contribution payments to an individual account of a person for whom, due to age, there is no possibility of a significant accumulation period;
 - termination of pension plan agreements or voluntary pension fund membership agreements shortly after their conclusion, especially if high contribution amounts are involved;
 - a request that funds accumulated in a member's individual voluntary pension fund account be paid to a third party's current account or to an account in a country where AML/CTF standards are not applied.
- 2) due to a complex organizational structure, legal form, and complicated or unclear relationships, it is difficult to determine the identity of the customer's beneficial owner or the persons who manage them;
- 3) the customer is a person whose offer to establish a business relationship was rejected by another management company, regardless of how this fact became known, i.e., a person with a poor reputation;
- 4) an unknown or unclear source of funds that the customer cannot demonstrate;
- 5) establishing a business relationship without the physical presence of the customer;
- 6) customer due diligence and monitoring actions entrusted to a third party;
- 7) the customer or the customer's beneficial owner is a politically exposed person (PEP) holding a prominent position that could enable them to abuse their position for private gain;
- 8) the customer participates in a voluntary pension fund intended for a small number of individuals with higher incomes or for persons who are closely related by family or in a similar manner; and

- 9) the customer conducts business in a manner where their funds originate from activities in sectors closely associated with a high risk of financial crime.

Transaction Risk Factors

2.5.3. Transaction risk factors indicating higher risk are:

- 1) withdrawal of funds from a member's individual voluntary pension fund account shortly after their payment; and
- 2) the customer makes payments exceeding the amount required for contributions and requests a refund of the overpaid amount.

Country and Geographic Risk Factors

2.5.4. Country and geographic risk factors indicating higher risk are:

- 1) the customer and the customer's beneficial owner are headquartered or reside in a country associated with a higher risk of ML/TF;
- 2) the customer's funds originate from a country associated with a higher risk of ML/TF;
- 3) funds are paid through accounts opened with financial institutions established in a country associated with a higher risk of ML/TF; and
- 4) the beneficial owner of the intermediary or agent is headquartered in or connected to a country associated with a higher risk of ML/TF.

Distribution Channel Risk Factors – Use of Agents in Voluntary Pension Insurance

2.5.5. Risk factors related to the use of agents in voluntary pension insurance indicating higher risk:

- 1) conclusion of a membership agreement without the physical presence of the customer, via the internet, without adequate safeguards such as electronic signatures or electronic identification documents;
- 2) the agent conducts activities simultaneously in areas that are significantly geographically distant.

3. FINAL PROVISIONS

These guidelines shall enter into force on the eighth day following their publication on the official website of the Agency.

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Banja Luka

Director of the Agency,
Draženka Janjanin