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Quiz

Case Studies

A. Case Study #1

Sally Johnson contacted insurance agent, John Gilford, to purchase an annuity. When John met with Sally she presented him with a check from her personal checking account in the amount of \$15,000 to purchase the annuity. Over the 2-week period immediately after the annuity was issued, Sally sent John additional premium deposits in the form of four money orders, three for \$2,000 each and one for \$1,000, totaling \$7,000. This behavior indicated a red flag to John, so he contacted his company's AML department with this information. It is later determined that Sally had been selling bootlegged merchandise at a local flea market on a cash basis. John was correct to notify his AML Officer.

Here, the examples are Placement, Structuring, Layering and Integration:

- **Placement:** When Sally introduced the cash into the financial system by purchasing money orders.
- **Structuring:** When Sally purchased the money orders for an amount less than \$3,000 to avoid a CTR transaction when purchasing money orders or traveler's checks, and when she submitted money orders totaling less than \$10,000 to circumvent the filing of Form 8300 by the insurance company.
- **Layering:** By purchasing the money orders then purchasing the annuity, Sally attempted to conceal the origin of the funds by using different transaction vehicles within the financial system.
- **Integration:** Once Sally requests money from her annuity and receives a check written by a U.S. financial institution (insurance company), the funds appear legitimate.

B. Case Study #2

Insurance agent Marty Jones recently sold a single premium whole life [insurance policy](#) to a client, Mr. James Singleton. Two months after the policy was issued, Mr. Singleton requested that the ownership be changed to another person. When Marty inquired about the relationship between Mr. Singleton and the new owner, Mr. Singleton suggested the relationship was his private information. The response raised a red flag for Marty, so he notified his AML department. The AML department then filed a SAR-IC, and an investigation ensued. It was discovered that the new [policyowner](#) was listed on the SDN list.

C. Case Study #3

Janice Lofton sold a \$75,000 annuity to a customer, only for the customer to request 1 month later to liquidate the annuity. Janice reminded the customer that there would be a 12% surrender charge, or \$9,000 of the proceeds, if the policy was cancelled at this

time. The customer had little concern for the loss of funds due to the surrender charge, but was extremely curious if the company would be required to file the transaction with the government. The client's anxiety about the compliance procedures, coupled with the lack of concern for the \$9,000 surrender charge, prompted Janice to report the [cancellation](#) request to her AML department.

D. Case Study #4

Robert, an insurance agent, sold a fixed annuity, a variable annuity and a whole life [insurance policy](#) to Kathy, a new customer. Kathy made an initial deposit of \$9,000 into the fixed annuity, \$8,000 into the variable annuity and \$5,000 into the life insurance policy. About a month later, during the 45-day free-look period, Kathy surrendered both annuities and requested refund checks payable to an unrelated third party off shore. Three weeks later, she cashed in the life insurance policy and once again requested a check payable to an unrelated third party off shore.

These transactions raised a red flag for Robert for several reasons: all three products were terminated early; the refund checks were issued to an unrelated third party, and the transactions appeared to serve no business or personal purpose. Robert suspects that Kathy is using insurance products to launder money, and reports the transactions to the insurance company's AML Compliance Department that will file a Suspicious Activity Report (SAR-IC) within 30 calendar days.

E. Case Study #5

Jane, the general manager of a small insurance agency, employs another agent, Tim, as an administrative assistant and to process walk-in business. Tim manages the office when Jane is out calling on prospects, which is most of the time. One day, Tim was alone in the office and Dave, a 20-year-old man with no dependents, stopped in and purchased a \$1,000,000 whole life policy with \$30,000 in cash. After the completion of the [application](#), Tim deposited the cash in the agency's checking account, wrote a check to the insurance carrier, sent off the application, and went about his business. He never mentioned to Jane, or the AML Department of the insurance carrier, that the life [insurance policy](#) was purchased with cash.

The purchase of such a large policy appears to be inconsistent with the insurance needs of a young man with no dependents. That, coupled with the cash payment, should have caused enough suspicion for Tim to contact the insurance carrier's AML Department to file a SAR-IC. Further, Tim was unaware that a Form 8300 must be filed within 15 days for cash transactions of \$10,000 or more, so a report was never filed. To prevent future violations, the insurance carrier should review its Anti-Money Laundering Program, written policies and procedures, and provide appropriate training for its agents and brokers.

F. Case Study #6

Gaylord contacted Matt, an insurance agent in Pennsylvania, to purchase a variable annuity. When they met, Matt was surprised to learn that Gaylord was from California. During the meeting Gaylord was vague about his investment objectives and showed little concern for the types of investments in the separate account. Even his social security number (121-12-1212) seemed suspect. In addition, the initial deposit of \$80,000 was made with a wire transmitted from a foreign bank. Matt wondered why Gaylord, a California resident, purchased an annuity in Pennsylvania, a place so far from his home. It also concerned him that Gaylord showed almost no interest in the investment characteristics of the annuity. When he saw that Gaylord's wire came from

a foreign bank, Matt decided it was time to contact annuity issuer's AML Department. The Department filed a SAR-IC.

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Chapter Complete

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