PREVENTION OF MONEY LAUNDERING AND THE FINANCING OF TERRORISM IN THE EARNINGS-RELATED PENSION SECTOR – RISK ASSESSMENT SUMMARY

Description of the earnings-related pension system

The Finnish earnings-related pension system is one aspect of statutory social security. All companies, corporations and individuals operating in Finland must take out earnings-related pension insurance. Pension benefits are defined in the relevant Acts (Employees Pensions Act, Self-Employed Persons' Pensions Act, or Public Sector Pensions Act).

Implementation of the earnings-related pension system is decentralized among a number of pension providers. Statutory pension provision is managed by both private-sector operators – pension insurance companies, specialized pension providers, industry-wide pension funds and company pension funds – and public-sector pension providers.

A pension insurance company carries out the statutory pension insurance business included in social security by managing the implementation of statutory pension provision and by taking care of the assets the company has accumulated for this purpose in a manner that secures the benefits encompassed by the insurance policies. Pension insurance companies may not engage in any other business.

In statutory insurance operations, the features common to pension insurance companies pertain to customers, products and services (the nature of business), the geographical area and distribution channels. For this reason, pension insurance companies consider it justified to regard them as one assessment object, or cluster, in the prevention of money laundering.

According to the guidelines for monitoring issued by the authorities, a group of companies that do not constitute an economic entity but have similar characteristics in terms of their money laundering risk can be treated as one cluster by the authorities.

Principal definitions

Services provided by a pension insurance company

Services provided by a pension insurance company for its customers mean statutory insurance services referred to in the Employees

Pensions Act (TyEL) and the Self-Employed Persons' Pensions Act (YEL) (insurance services), credit or financing services, and the leasing of premises for business and residential purposes (other services), where the pension insurance company acts as a financier or a lessor.

A pension insurance company's customer

In line with Standard 2.4 of the Financial Supervisory Authority Fiva, pension insurance companies define a customer as a natural person or a legal person to whom the pension insurance company offers its services or who requests or uses these services. In the sense meant by money laundering regulations, pensioners or the insured are not considered to be a pension insurance company's customers.

Regular customer relationship refers to a relationship of a permanent nature or to a customer relationship that, at the time of making the contact, is assumed to become permanent. An example of the establishment of such a customer relationship is the signing of an insurance contract (contract customers).

For insurance services, an occasional customer relationship is rarely applied in practice. Typical occasional customers in earnings-related pension insurance are temporary employers who have no permanent employees to insure. A temporary employer must conclude an insurance contract when the criteria of the law are met; these criteria are met before the minimum sum of EUR 10,000 specified in the Act on money laundering. For other services, the identification obligation associated with occasional customer relationships may become applicable.

Risk-based approach

The risk-based approach means a procedure where pension insurance companies identify, assess and understand the risks of money laundering and the financing of terrorism to which they are exposed, and take measures that are proportionate to the risks. In line with the risk-based approach, pension insurance companies must see to it that they know and identify their customers. As to the procedures, the companies can use their discretion.

Risk assessment

Pension insurance companies must draw up their own risk assessment in order to identify and evaluate the risks of money laundering and the financing of terrorism. The risk assessment must be documented and updated regularly. The nature, volume and extent of operations must be taken into account when drawing up the risk assessment.

Knowing the customer and risk-based assessment

The legislative history of the Act on money laundering (Government Proposal 228/2016) concludes that earnings-related pension insurance involves a low risk of either money laundering or the financing of terrorism. This has been brought up in connection with the simplified obligation to know the customer. The grounds to the Government Proposal state that when the implementation of statutory earnings-related pension insurance or a self-employed person’s pension insurance are managed as part of social security, it is possible to comply with the simplified obligation to know the customer. The simplified procedure does not exempt the pension insurance company from the obligation to know the customer.

The obligation to know the customer means varying measures determined according to the risk-based assessment. The measures for knowing the customer must be adhered to throughout the customer relationship. When an earnings-related pension insurance company assesses its customer relationships in terms of the risks of money laundering and the financing of terrorism, it must take account of the risks of money laundering and the financing of terrorism associated with customers, products and services (the nature of business), as well as distribution channels and geographical areas (risk-based assessment).

A pension insurance company’s insurance products are statutory and mandatory. Earnings-related pension insurance companies are the only insurance companies that may grant pension insurance policies specified in the Employees Pensions Act As a distribution channel, pension insurance companies can use insurance intermediaries, who must have sufficient professional competence to offer earnings-related pension insurance products. The company acting as the policyholder cannot withdraw or transfer to itself the insurance coverage included in the pension insurance.

As from the beginning of 2019, the earnings-related pension system will join the national Incomes Register as a user of income data. For instance, thanks to the Incomes Register, the earnings-related pension insurance system can shift from annual contributions to real-time premium payment.

All of the above factors reduce the risk of money laundering.

In addition, each pension insurance company makes its own risk assessment. The company must document its assessment so that it can demonstrate to Fiva that the methods applied to knowing and constant monitoring of customers are sufficient in view of the risk of money laundering and the financing of terrorism.

Investment

In investment, the pension insurance company is usually in the customer's role. Then the company is subject to the identification obligation.

The customer of the pension insurance company's investment activities means the body that acquires the pension insurance company's other services (see definition). It must be noted that in investment activities, the pension insurance company invests its own assets. It is against the law for the pension insurance company to engage in investment activities on behalf of others. It must also be noted that no capital can be channelled into a pension insurance company for investment purposes. The only gain that can be attained is the amount of the share capital or guarantee capital portions and a reasonable return calculated on that amount.

In its own risk assessment, the pension insurance company assesses the risk defined in the Act on money laundering, when this risk is associated with other services given to the customer besides insurance services.

When conducting business, pension insurance companies identify their contractual partners. As responsible actors and investors, pension insurance companies monitor the counterpart's activities and acquire information on their contractual partner over a wide range.

In credit and financing services or in other services (e.g. leasing), the customer is not usually met in person. The customer may also be identified by a body other than a pension insurance company (e.g. a bank), or the customer has already been identified at an earlier stage when the customer relationship was established. The pension insurance company ensures that it has access to the information about how the customer is known, if a third party has met the obligations for knowing the customer on its behalf. In this situation, the pension insurance company is not exempted from the responsibilities specified in the Act on money laundering.