SIERRA HEALTH SERVICES, INC.®

All the benefits of good health.

5

October 10, 2002

FinCEN
P.O. Box 39
Vienna, VA 22183

Attn: Section 352 – Insurance Company Regulations

Dear Gentlemen:

We recently reviewed the USA Patriot Act insurance regulation that was published on September 26, 2002. We applaud the departments attempt to limit the scope of the regulation to only insurance lines where there are risks for money laundering. In particular we supports the department's attempt to ensure that life insurance policies are not used to launder money.

However, this proposed regulation has raised a number of questions for us. It appears the department is specifically concerned when a life insurance policy has cash surrender value, the policy is transferable, and when the policy has stored value. The department gave a number of examples how an individual life insurance policy with these characteristics could be used to launder money. A money launder could purchase a life insurance policy for himself, pay a large up front premium and then redeem the policy. Or a money launder could purchase a life insurance policy on an elderly sick person and collect the benefit when the individual dies. In either case, the money that the individual received from the insurance company would then be "clean."

The life insurance characteristics that were previously mentioned do increase the risk of money laundering; however, these characteristics are not present in all types of life insurance polices. For example, life insurance polices can be divided into two broad groups of polices, an individual and a group policy. A group life insurance policy is significantly different from an individual life insurance policy, such that it does not contain the same money laundering risks.

While in some cases an insurer may provide both individual and group life insurance, this is not always the case. For example, our company offers group life insurance policy and not an individual life insurance policy. This group life insurance policy is not offered as a standalone product, but only offered in conjunction with other benefits. However, as drafted the proposed regulation would require all insurers that provide both individual and group life insurance to comply with this regulation. We believe there are significant differences between an individual and group life insurance policy, such that there is little or no money laundering risk associated with a group life insurance policy.

First, unlike an individual life insurance policy, a single person does not purchase a group life insurance policy just for himself or another person. Instead, an employer purchases a group life insurance policy for all his eligible employees. Additionally, this benefit is offered in conjunction with other benefits such as health, dental, long-term disability, and short-term disability, and not as a stand-alone product. This factor alone makes it inconceivable that a group life insurance policy could be used to launder money. A money launder would have to purchase a group of benefits before he could even get to a group life insurance product and he would have very little control over who would receive that life insurance policy, since it would have to be offered to all his eligible employees. In other words, a money launder would have very little or no control over who received the policy, he would have very little control of when or if he would get the funds back, and group life insurance is sold in such a way that it eliminates any covert activity such as money laundering from occurring.

Second, a money launder would not be able put a large upfront premium payment on a group life insurance policy in order to transfer money. Typically a group life insurance policy's premium is paid by the employer on a monthly basis instead of with a large up front premium and it typically has a limited policy value that is payable in the event of a death or dismemberment of the employee. For example, our group life insurance policy has an average payout of $20,000 per insured in the event of death or dismemberment and an employer pays the premiums for the policy on a monthly basis. In order for the money launder to put a large upfront premium down on a group policy, he would have to put a large upfront premium down for every eligible employee in that group. This is extremely unlikely to occur because of a group life policy's limited payout. In other words, a money launder would not have the opportunity to use a group life insurance policy to launder money because of the limited value of these policies and the method and way they are purchased by employers.

Third, while an individual life insurance policy may have a cash surrender value. Our group life insurance policy does not have a cash surrender value. Instead two conditions must be met before an employee can receive the benefits under a life insurance policy. He must maintain his employment with that purchased the policy and there must be either a death or dismemberment. There is no cash surrender value. This lack of a cash surrender results in money launders looking at an individual life insurance policy as a means to launder money, not a group life insurance policy.

Fourth, the department also raised the concern that a life insurance policy could be transferable. While an individual life insurance policy might be transferable, this is not true in the same sense for a group life insurance policy. If the employee left his employer, then the employee's group life insurance policy would terminate. He could convert his group insurance policy into an individual life insurance policy, but that rarely occurs. This rarely occurs for two reasons. The employee will likely receive a group life policy at his next place of employment and a converted individual policy is limited to value under the original group life insurance policy. An employee cannot convert the group life insurance policy into a higher value individual policy. By this time in the process, a money launder would not be able to use a group life insurance policy to transfer money.

In conclusion, a group life insurance policy does not have the same money laundering risk as an individual life insurance policy. A group life insurance policy has no cash surrender value, it is not transferable, and does not have the stored value that an individual life insurance policy contains. Additionally, a money launder has no or very little control over who would be eligible for a group life insurance policy, since it is offered to all eligible employees. For these reasons, we ask the department to consider amending the definition of life insurance to reflect that it applies to individual life insurance policies, and not group life insurance policies.

Thank you for you consideration.

Jack Kim,
Director of Legislative Programs

cc: Donald Giancuriso, Vice President Sales
Wayne Nippe, Assistant General Counsel