ANTI MONEY-LAUNDERING FOR INSURANCE 2ND EDITION PRACTICE EXAM (SAMPLE)

STUDY GUIDE

Prepare with structure. Pass with confidence

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. Which enforcement action is listed as a possible sanction for AML non-compliance in the material?

A. Fine (for example, $10)

B. Tax adjustment

C. Public awareness campaign

D. Cease and desist

2. Corporate-owned life insurance (COLI) AML challenges include

A. Complex ownership and corporate structures complicate beneficial ownership and source-of-funds verification; requires robust CDD/EDD on corporate clients

B. COLI policies are exempt from AML requirements

C. COLI ownership is always straightforward

D. COLI only involves individuals, not corporations

3. In AML, Enhanced Due Diligence (EDD) applies to which scenarios?

A. It applies to all customers automatically.

B. It applies to high-risk customers or transactions requiring deeper verification.

C. It applies to domestic accounts only.

D. It is the same as standard KYC.

4. Which of the following crimes will not give rise to funds that may be the subject of money laundering?

A. Drug trafficking

B. Fraud

C. Embezzlement

D. Loan to a child

5. Enhanced due diligence (EDD) for corporate clients typically includes all of the following except

A. Assessing beneficial ownership

B. Verifying source of funds

C. Ongoing monitoring for red flags

D. Auditing the client's internal financial statements

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6. What is the expected outcome of a well-implemented AML program for an insurer?

A. Increased regulatory penalties

B. Reduced ML/TF risk, compliance with law, protection of customers and firm, and minimal regulatory penalties

C. No impact on risk

D. Slower product development

7. Which of the following represents a reasonable approach for providing notice about identity verification at a financial institution?

A. Provide no notice to customers to avoid friction.

B. Publish all verification policies in a separate document.

C. Provide clear notice about identity verification requirements.

D. Offer verification only to new customers.

8. How should insurers manage third-party payments to avoid ML risk?

A. Only screen payers after a suspicious activity is detected

B. Screen payers, verify funds' source, document relationships, apply CDD/EDD, and monitor frequent third-party payments from unknown sources

C. Accept any third-party payments without verification

D. Delegate all payment decisions to customers

9. Which statement best describes enhanced due diligence for remote applicants?

A. Verification of identity, source of funds, and ongoing monitoring tailored to higher risk

B. Apply standard due diligence identical to in-person applicants

C. Verification of identity, source of funds, and enhanced ongoing monitoring for higher-risk remote applicants

D. No additional checks beyond standard CDD

10. In premium financing arrangements, enhanced due diligence should be applied when which condition is observed?

A. All loans have complete documentation and transparent lenders.

B. Incomplete loan documentation, opaque lenders, unusual repayment terms, or inconsistent policy ownership.

C. Loans with standard documentation regardless of risk.

D. Apply enhanced due diligence only after a regulatory inquiry.

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Answers

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1. A
2. A
3. B
4. D
5. D
6. B
7. C
8. B
9. C
10. B

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Explanations

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1. Which enforcement action is listed as a possible sanction for AML non-compliance in the material?

A. Fine (for example, $10)

B. Tax adjustment

C. Public awareness campaign

D. Cease and desist

Monetary penalties are a common way regulators enforce AML rules because they create a tangible consequence for non compliance and deter future violations. A fine directly ties the sanction to the breach, scales with severity, and provides a clear incentive for firms to strengthen their AML programs, conduct proper customer due diligence, and file accurate suspicious activity reports. The material specifically lists fines as a possible sanction, making it the best fit for the scenario. Tax adjustments aren't typically used as AML penalties because they relate to taxation rather than regulatory enforcement. A public awareness campaign is educational rather than punitive, so it doesn't serve as a sanction. A cease and desist can be an enforcement tool in some contexts, but the material in question identifies a monetary penalty as the sanction, which is why the fine is the correct choice.

2. Corporate-owned life insurance (COLI) AML challenges include

A. Complex ownership and corporate structures complicate beneficial ownership and source-of-funds verification; requires robust CDD/EDD on corporate clients

B. COLI policies are exempt from AML requirements

C. COLI ownership is always straightforward

D. COLI only involves individuals, not corporations

COLI AML challenges come from the fact that corporate-owned life insurance often hides a complex ownership chain that can obscure who ultimately controls the policy and where the funds come from. When a corporation owns the policy and pays the premiums, the true beneficial owner may be individuals spread across subsidiaries, trusts, or related entities. This layering makes identifying the real owner and verifying sources of funds much harder, so robust customer due diligence and enhanced due diligence on corporate clients are essential. Insurers need to map the ownership structure, confirm legitimate business activities, and verify that premium payments originate from legitimate sources, while maintaining ongoing monitoring for related-party transactions, unusual fund movements, or policy financing that could disguise illicit activity. That's why COLI isn't exempt from AML requirements, and why ownership isn't always straightforward and can involve corporate actors, not just individuals.

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3. In AML, Enhanced Due Diligence (EDD) applies to which scenarios?

A. It applies to all customers automatically.

B. It applies to high-risk customers or transactions requiring deeper verification.

C. It applies to domestic accounts only.

D. It is the same as standard KYC.

Enhanced Due Diligence is the process of applying deeper verification and closer ongoing monitoring when a relationship or transaction is considered high risk. It goes beyond standard KYC by gathering more detailed information, verifying sources of funds, understanding beneficial ownership, and watching transactions more closely over time. This concept is best captured by saying it applies to high-risk customers or transactions that require deeper verification. In practice, that means relationships involving politically exposed persons, customers from high-risk or non-face-to-face jurisdictions, complex ownership structures, large or unusual cross-border activity, or products and services that could conceal illicit funds. Why the other ideas don't fit: applying EDD to every customer would ignore the risk-based approach AML programs use; limiting EDD to domestic accounts only misses the global nature of money laundering risks; and treating EDD as the same as standard KYC contradicts the purpose of EDD, which is to escalate scrutiny beyond normal customer due diligence.

4. Which of the following crimes will not give rise to funds that may be the subject of money laundering?

A. Drug trafficking

B. Fraud

C. Embezzlement

D. Loan to a child

Money laundering involves disguising the origin of funds that come from criminal activity, turning dirty money into seemingly legitimate money. The sources that commonly produce such proceeds are activities like drug trafficking, fraud, and embezzlement, because they generate cash or assets from illegal acts that criminals want to legitimize. A family loan to a child, however, is a legitimate financial transaction and not money produced by crime. It does not create illicit proceeds to be laundered, unless the funds used for the loan themselves originated from crime, which is a separate issue. So this option describes a non-criminal source of funds, which is why it's the best answer.

5. Enhanced due diligence (EDD) for corporate clients typically includes all of the following except

A. Assessing beneficial ownership

B. Verifying source of funds

C. Ongoing monitoring for red flags

D. Auditing the client's internal financial statements

Enhanced due diligence for corporate clients focuses on uncovering who really controls the entity, verifying where the money is coming from, and maintaining vigilant ongoing monitoring for any red flags. This means digging into beneficial ownership to reveal the ultimate owners or controllers, confirming the source of funds to ensure legitimate origins, and setting up ongoing review to catch new risk signals as the relationship evolves. Auditing the client's internal financial statements, while important for financial governance and external reporting, is not typically part of AML enhanced due diligence. Audits are financial control activities aimed at accuracy and compliance of financial reporting, not the verification of AML risk or fund provenance, so this item lies outside the standard EDD suite.

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6. What is the expected outcome of a well-implemented AML program for an insurer?

A. Increased regulatory penalties

B. Reduced ML/TF risk, compliance with law, protection of customers and firm, and minimal regulatory penalties

C. No impact on risk

D. Slower product development

A well-implemented AML program focuses on reducing money laundering and terrorist financing risk while ensuring regulatory compliance and protecting customers and the firm. By applying a risk-based approach to customer due diligence, ongoing transaction monitoring, suspicious activity reporting, and strong governance, an insurer lowers the likelihood that illicit funds flow through its products and services. This solid risk management supports compliance with applicable laws and supervisory expectations, helps preserve the firm's reputation and financial stability, and demonstrates to regulators that controls are effective, which tends to lead to minimal penalties. The other options don't fit because stronger penalties would signal weak controls, not a well-run program; there is indeed an impact on risk when AML controls are properly in place; and the aim is to manage risk efficiently rather than deliberately slow down product development.

7. Which of the following represents a reasonable approach for providing notice about identity verification at a financial institution?

A. Provide no notice to customers to avoid friction.

B. Publish all verification policies in a separate document.

C. Provide clear notice about identity verification requirements.

D. Offer verification only to new customers.

Notifying customers clearly about identity verification is essential to meet AML expectations and build trust. Regulators expect financial institutions to explain what verification steps are required, what documents will be needed, when verification happens (such as during onboarding or for certain activities), how the information will be used, and how long it will be retained. Providing clear notice helps customers prepare, reduces delays, and shows the institution is serious about compliance. The best approach is to give clear notice about identity verification requirements upfront and in an accessible way. Simply not informing customers creates confusion and regulatory risk, while burying all policies in a separate document or limiting verification only to new customers would fail to provide the necessary transparency and coverage.

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8. How should insurers manage third-party payments to avoid ML risk?

A. Only screen payers after a suspicious activity is detected

B. Screen payers, verify funds' source, document relationships, apply CDD/EDD, and monitor frequent third-party payments from unknown sources

C. Accept any third-party payments without verification

D. Delegate all payment decisions to customers

Handling third-party payments with a structured, risk-based approach is essential to prevent laundering through insurance channels. The best practice is to screen who is making the payment, verify where the funds come from, document the relationship between the payer and the insured or policyholder, apply appropriate Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) where warranted, and watch for patterns such as frequent third-party payments from unknown or dubious sources. This combination creates traceability and accountability: you know who is paying, that the funds are legitimate, and you have a documented business rationale for the arrangement. Ongoing monitoring helps catch evolving risk, such as spikes in third-party payments or new payers with unclear connections to the insured. Reactive screening after suspicious activity is detected, or accepting third-party payments without any verification, or leaving payment decisions entirely to customers all create gaps that could be exploited to launder money. The deliberate, proactive controls in this approach reduce ML risk by establishing identity, origin of funds, legitimate purpose, and ongoing scrutiny.

9. Which statement best describes enhanced due diligence for remote applicants?

A. Verification of identity, source of funds, and ongoing monitoring tailored to higher risk

B. Apply standard due diligence identical to in-person applicants

C. Verification of identity, source of funds, and enhanced ongoing monitoring for higher-risk remote applicants

D. No additional checks beyond standard CDD

Enhanced due diligence for remote applicants focuses on elevating scrutiny because lack of physical presence increases the risk of identity or funds misuse. The best description is to verify identity and source of funds, and to apply enhanced ongoing monitoring specifically for higher-risk remote applicants. This means going beyond standard checks with additional identity verification steps (using multiple sources, corroborating documents, cross-checks, and address confirmation) and implementing more rigorous, ongoing monitoring of their transactions—reviewing activity more frequently, adjusting risk assessments as new information comes in, and applying stronger alerts or escalation when unusual patterns appear. This approach directly addresses the elevated risk of remote onboarding by ensuring both who the applicant is and where their funds come from are solid, and by keeping closer watch on their activity over time. The other options fall short because standard, in-person–level due diligence does not account for remote risk, or it describes enhanced monitoring without tying it to the higher-risk remote context, or it suggests no additional checks beyond standard CDD.

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10. In premium financing arrangements, enhanced due diligence should be applied when which condition is observed?

A. All loans have complete documentation and transparent lenders.

B. Incomplete loan documentation, opaque lenders, unusual repayment terms, or inconsistent policy ownership.

C. Loans with standard documentation regardless of risk.

D. Apply enhanced due diligence only after a regulatory inquiry.

Premium financing carries higher AML risk because funds flow through third-party financiers and the arrangement can hide true ownership and sources of funds. When there are indicators like incomplete loan documentation, opaque lenders, unusual repayment terms, or inconsistent policy ownership, due diligence should be escalated to enhanced due diligence. These red flags hinder verification of who is really borrowing, where the funds originate, who ultimately owns or controls the policy, and whether the loan terms might be used to obscure illicit activity. Enhanced due diligence involves deeper verification of the lender's identity and reputation, clarification of the loan's source of funds, closer scrutiny of the policy ownership chain, and ongoing monitoring of the relationship and transactions. This proactive, risk-based approach helps detect and prevent money laundering or fraud early, rather than waiting for a regulator inquiry. The other scenarios describe environments with clean, transparent documentation or a reactive posture that only kicks in after scrutiny, which do not align with applying heightened scrutiny where risk signals exist.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://antimoneylaund4insurance2e.examzify.com

We wish you the very best on your exam journey. You've got this!

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