



OFAC Steps Up Enforcement Against (RE)Insurance Industry

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Over half of the penalties announced by the U.S. Office of Foreign Assets Control ("OFAC") in 2011 for alleged violations of the U.S. economic and trade sanctions regulations have been assessed against the insurance industry.

In the first trimester of 2011, eight companies and individuals have been assessed a total of \$401,436 in civil penalties. Four of the eight are companies in the insurance industry that collectively accounted for \$219,356 of the total penalties assessed to date.

Penalties were assessed against two separate brokers for allegedly facilitating the placement of coverage. One broker penalty (\$36,000) involved the placement by a U.S. broker of facultative retrocession reinsurance between a European reinsurer and two European retrocessionaires involving construction risks associated with a petroleum project on Kharg Island in Iran. The other broker penalty (\$122,408) involved the placement of six multi-peril insurance policies insuring submersible oil rigs in Iranian waters. Both broker penalties involved violations of the Iranian Transaction Regulations.

Penalties also were assessed against a U.S. specialty reinsurer (\$38,448) for participating on the hull portion of an aircraft hull and liability reinsurance policy which the broker used to insure aircraft that were later leased by a foreign-owned commercial airline to an air charter company operating in Iran. The fourth (re)insurance industry penalty assessed this year involved a life insurer (\$22,500) for making a \$30,162 lump sum death benefit payment to a beneficiary in Cuba in violation of the Cuban Assets Control Regulations.

OFAC penalties are not restricted to foreign (re)insurance transactions. In 2010, for example, OFAC assessed a penalty (\$11,000) against a domestic personal lines insurer for issuing an automobile policy to an individual that had been named as a Specially Designated Narcotics Trafficker in violation of the Foreign Narcotics Kingpin Sanctions Regulations. U.S. personal lines carriers insuring wholly domestic risks are not immune from OFAC compliance, and, with illegal narcotics trafficking moving closer to the U.S. border, domestic (re)insurers should be cognizant of their obligations to comply with U.S. economic and trade sanctions regulations and taking action to beef-up their compliance systems and procedures.

Many of Locke Lord Bissell & Liddell LLP's attorneys have devoted their careers to representing insurers, reinsurers and intermediaries in all aspects of their business. We understand the insurance industry and



our attorneys understand the unique challenges that OFAC regulations present to the day-to-day operations of those in the insurance industry. We are well-equipped to handle your insurance-related OFAC matters.

Endnotes

- 1 OFAC administers and enforces U.S. economic and trade sanctions regulations targeting foreign governments and regimes, organizations, companies and individuals that pose a threat to U.S. national security and foreign policy objectives. Targets include terrorists and terrorist organizations, illegal weapons dealers, narcotics traffickers, as well as Cuba, Iran and Sudan. Individuals, companies and organizations against whom sanctions have been imposed are identified as "specially designated nationals" ("SDNs"), and persons subject to the United States are prohibited from dealing in property in which an SDN (and any entity in which an SDN owns or controls) has a direct or indirect interest.*
- 2 The Iranian Transactions Regulations not only prohibit U.S. persons from financing, facilitating, or guaranteeing goods, technology or services to Iran, but they also prohibit U.S. persons from approving, financing, facilitating, or guaranteeing any transaction by a foreign person where the transaction performed would be prohibited if performed by a U.S. person. See 31 C.F.R. § 560.206 and 31 C.F.R. § 560.208.*

For more information on the matters discussed in the *Locke Lord QuickStudy*, please contact the authors:

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