



# 10 things you need to know about PEP screening

Best practices for Politically Exposed Person (PEP) screening

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## HOW LONG IS A PEP CONSIDERED A PEP?

FATF Recommendation 12 defines a PEP as being someone who has been (but may no longer be) entrusted with a prominent public function. The language of Recommendation 12 is consistent with a possible open-ended approach (i.e. “once a PEP—could always remain a PEP”). The handling of a client who is no longer entrusted with a prominent public function should be based on an assessment of risk and not on prescribed time limits. The risk-based approach requires that financial institutions and DNFBPs assess the ML/TF risk of a PEP who is no longer entrusted with a prominent public function, and take effective action to mitigate this risk. Possible risk factors are:

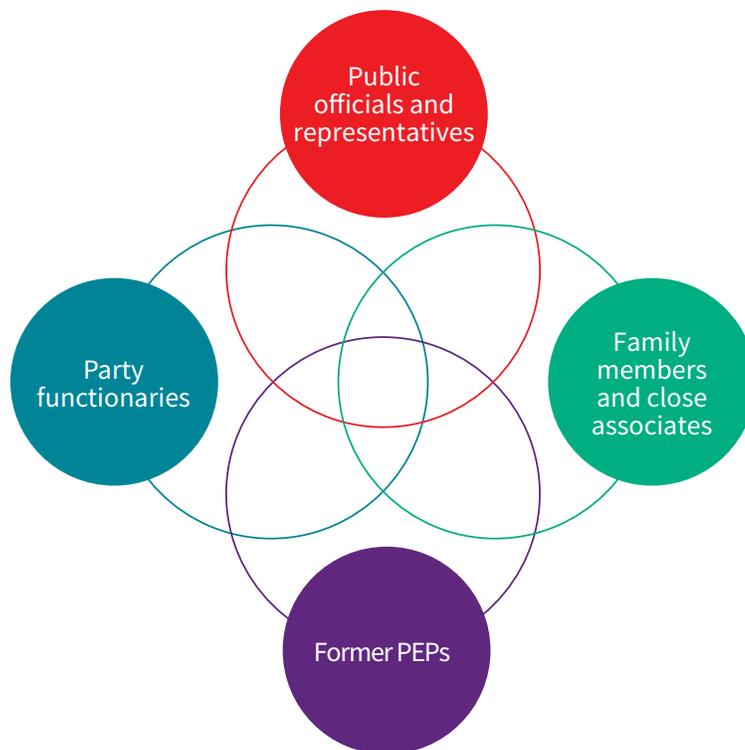
- the level of (informal) influence that the individual could still exercise; the seniority of the position that the individual held as a PEP; or
- whether the individual’s previous and current function are linked in any way (e.g., formally by appointment of the PEP’s successor, or informally by the fact that the PEP continues to deal with the same substantive matters).

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## POLITICALLY EXPOSED PERSONS—A CENTRAL RISK CATEGORY

The regulations on anti-money laundering and anti-corruption are based on the risk-based approach. As a result, this leads to a convergence of the terms politically exposed person and public official. This is also appropriate given the factual correlation. The term PEP has the advantage that it includes both the group of those with formal political power, and the group of informal, but influential political actors. This is closer to the political reality in many countries, especially, when one is trying to understand the network of relationships between representatives of the individual groups of PEPs shaping a country’s corruption and money laundering pattern.

It is common knowledge that former public officials and elected officials do not lose influence, but rather assert it elsewhere and make use of the network they formed during their time in office. How long after the termination of the official activity the PEP status should continue is a contested issue. But again, whether a person should still be classified as politically exposed should ultimately be decided by using a risk-based approach. The suggestion to take former PEPs into consideration is therefore a pragmatic solution.

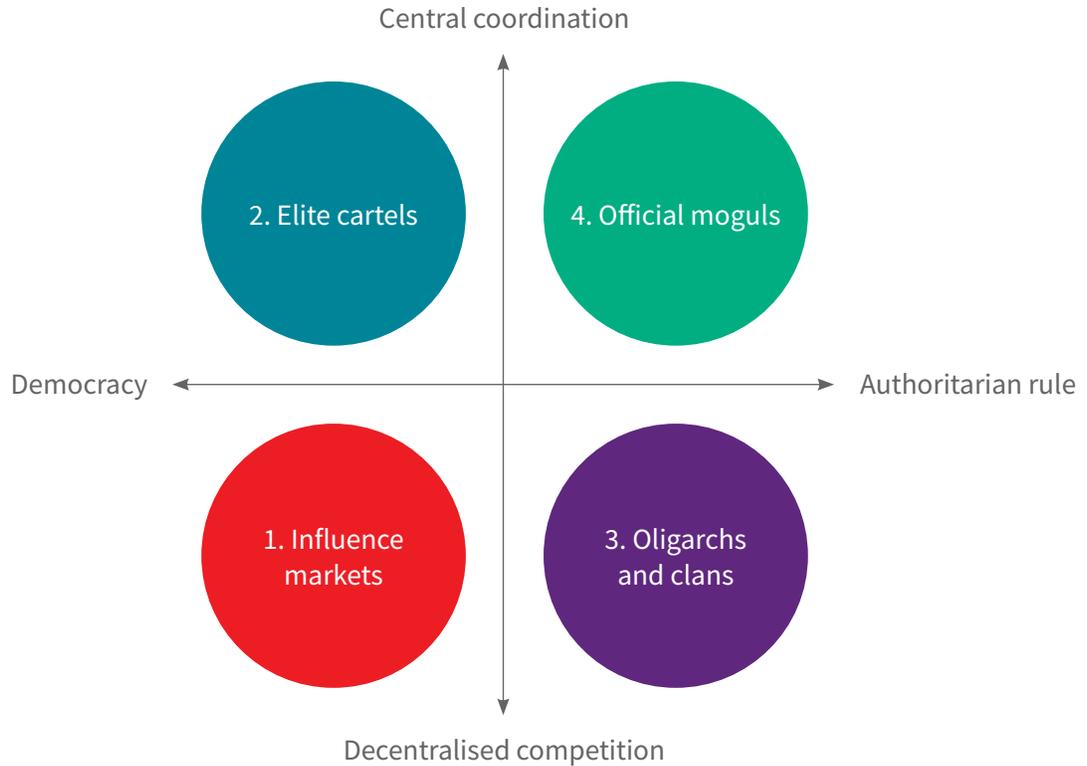


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ARE THERE ANY PATTERNS OF CORRUPT PEP RELATIONSHIPS?

The actual power structures in a country depend on who defines the rules of the game—the institutions or the acting persons. If institutions are only empty shells, the focus should be on the behaviour of the political elite, i.e. the PEPs and their informal relationships amongst each other. In these instances it is important to understand what kind of relationship patterns one is dealing with and what these relationship patterns say about the type and extent of political corruption in a country.

Research on corruption distinguishes four so-called syndromes of political corruption.<sup>1</sup> This approach will be introduced here, as it can assist in matching the situation in a certain country with these four types. This in turn helps to understand the risks of money laundering or corruption with which a foreign financial institution or corporation is confronted. The following relationship patterns are ideal types. When undertaking the specific country analyses there are likely to be variants and hybrids.



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**WHAT IS THE RISK ASSESSMENT GUIDELINE IN DEALING WITH PEPs?**

The Financial Action Task Force’s 40 Recommendations on Money Laundering states that financial institutions should, in relation to PEPs both foreign and domestic:

- have appropriate risk-management systems to determine whether the customer is a PEP;
- obtain senior management approval for establishing business relationships with such customers;
- take reasonable measures to establish the source of wealth and source of funds; and
- conduct enhanced ongoing monitoring of the business relationship.

## 5

## WHO TO CHECK AND WHEN TO CHECK

The primary key for institutions is the expectancy of identifying the PEPs before **establishing a business relationship** as well as **ongoing monitoring** of existing clientele to ensure funds managed on their behalf do not derive from a corrupt source. While there is no global definition of a PEP, the Financial Action Task Force (FATF) has issued guidelines. Local legislations such as the USA PATRIOT Act and the European Union Directive use similar definitions of a PEP, typically consisting of the following five layers:



Current or former senior official in the executive, legislative, administrative, military, or judicial branch of a foreign government (elected or not)



A senior official of a major foreign political party



A senior executive of a foreign government-owned commercial enterprise, and/or being a corporation, business or other entity formed by or for the benefit of any such individual



An immediate family member of such individual; meaning spouse, parents, siblings, children, and spouse's parents or siblings



Any individual publicly known (or actually known by the relevant financial institution) to be a close personal or professional associate

It is important to know the interpretation of these layers does vary by country; the expectations for an organization doing business with PEPs are universally similar.

## 6

## WHAT IS THE MINIMUM BASELINE OF CONTROL FOR FINANCIAL INSTITUTIONS TO CHECK IF CUSTOMERS ARE PEPs?

According to the Wolfsberg Group, a wide range of controls may be considered for the identification and management of PEP relationships, but not all will be appropriate for application across an institution's entire range of business. For example, in retail banking relationships, a different balance of controls may be relevant than those considered appropriate within a private banking/wealth management environment.



### **New client approval -**

Institutions should have reasonable procedures designed to identify PEPs either before the relationship is established or shortly thereafter, where permitted under applicable law. While basic client relationships are typically subject to standard due diligence during the approval process, PEP relationships should be escalated for approval by senior management.



### **Identification of existing clients -**

When an institution becomes aware that an existing client has become a PEP, it should apply appropriate enhanced procedures and controls and notify senior management.



**Enhanced due diligence -** Once identified and depending on the product or service sought, additional research and analysis may be appropriate including validation of information provided for a number of factors including an understanding of the individual's source of funds and wealth.



### **Enhanced monitoring -**

Accounts with a PEP relationship should be subject to enhanced monitoring to detect unusual and potentially suspicious activity.



**Review existing PEP clients -** Such relationships should be subject to periodic review to ensure that due diligence information remains current and the risk assessment and associated controls remain appropriate. Senior management should approve these reviews.

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**IS THERE A COMMERCIAL PEP DATABASE WE CAN CONSIDER TO IDENTIFY THE PEP?**

The WorldCompliance® screening database delivers the industry’s most robust compliance data and unmatched sanctions expertise to help your business increase transaction screening efficiency and mitigate costly risk. The database includes one of the largest listings of PEPs profiles as well as family members, State Owned Enterprises and a proprietary list of government-owned and government-linked corporations and businesses.

**WorldCompliance currently:**

Contains over 1,400,000 politically exposed entities from 250+ countries	Includes detailed information such as: names, aliases, date and place of birth, photographs, positions, family members, associates and company holdings	Includes direct access to the most comprehensive information available to assist with identifying true matches	Provides key relationships viewable in an interactive diagram to identify high-risk customers with connections to PEPs
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**WHAT ARE THE CONSIDERATIONS FOR SELECTING AN ANTI-MONEY LAUNDERING SOLUTION FOR PEP SCREENING?**

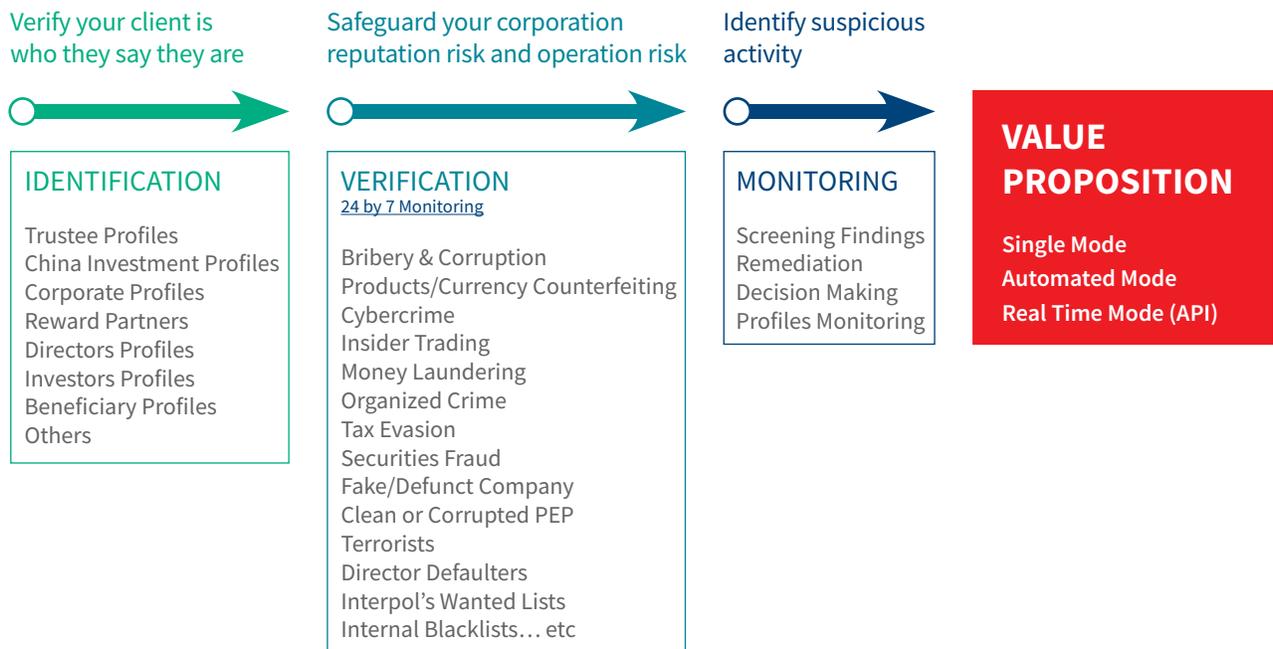
It is important to understand that not all tools are created equal. It is the institution's responsibility to check the quality of the tools they use and the expertise of the developers. Compliance professionals shopping for technological solutions to PEP screening should consider the following:

- **Who is the vendor?**  
Make sure to choose products from a vendor you trust, rather than a fly-by-night operation. The bottom line is that the financial institution is responsible for compliance, not the developer.
- **What is the scope of the product?**  
Does the database merely contain information about PEPs, their families and their associates, or does it also include other high-risk individuals or those named on government watchlists? How sophisticated is the matching software? It is important to remember that financial institutions must evaluate both PEPs and other high-risk customers to satisfy regulators.
- **What is the methodology?**  
How does the vendor compile the database? What sources does the database use? Are the sources reputable? How does the software filter matches? How often is the product updated? It's also important to remember that technology is only as good as the information we supply it with. These are merely tools, and even the most sophisticated technology can require additional analysis.

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## WHAT ARE THE BENEFITS OF DEPLOYING BRIDGER INSIGHT XG?

- Broaden customer insights with expansive sanctions coverage
- Automate customer screening and accelerate your compliance workflow
- Generate faster revenue
- Leverage leading identity verification tools for more true matches
- Confidently expand into global markets
- Quick setup, system integration and low maintenance
- Facilitate real-time English or Native screening (Chinese)
- Employ built-in security feature like PGP-encrypted
- Simplify SWIFT, International ACH and FedWire Payment Screening
- Accelerate account openings
- Fight financial crime including money laundering and terrorist financing
- Reduce the costs of manual reviews due to false positives

For more information,  
visit <http://www.lexisnexis.com/risk/intl/en/anti-money-laundering.aspx>



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Our financial services solutions assist organizations with preventing financial crime, achieving regulatory compliance, mitigating business risk, improving operational efficiencies and enhancing profitability.

<sup>1</sup>Michael Johnston, *Syndromes of Corruption*, Cambridge UP, 2005.

<sup>2</sup><http://www.lexisnexis.com/risk/downloads/whitepaper/effective-approach-for-news-screening.pdf>

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