



Fact Sheet: **Politically Exposed Persons**

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What Are the Increased Risks for a Financial Institution Entering Into, or Maintaining, a Relationship With a PEP, Close Family Member or Close Associate of a PEP?

Entering into, or maintaining, a business relationship with a politically exposed person (PEP) can present numerous and various challenges to financial institutions. Proximal Consulting's enhanced due diligence reports will help you to navigate through these challenges and ensure that you comply with your KYC obligations in a timely and cost effective manner.

The main risk posed by PEPs is the possibility that they may misuse or abuse their influence and prominent public positions for personal gain. PEPs are therefore perceived to present a higher risk for potential involvement in predicate offences such as bribery and corruption. As a result, financial institutions are exposed to the risk of inadvertently laundering the proceeds of crime, as well as to legal, reputational or concentration risks.

However, it is important to note that simply because an individual is classified as a PEP, it does not automatically mean that they are involved with criminal activities or the abuse of power.

What Is a Politically Exposed Person?

Proximal Consulting's enhanced due diligence reports are particularly adept at confirming whether the individual or individuals concerned should be classified as a PEP. Not only will our tailor-made reports provide background information on these individuals (and identify their close family members and associates), they will also ensure that you comply with your KYC obligations.

There is no universal definition of a PEP. The Wolfsberg Group (a group of international financial institutions) defines a PEP as a natural person of public functions (domestic or international) including

- Heads of state
- Senior judicial officials
- Members of royal families

The definition of a PEP also includes family members and close associates of these individuals. This is because of the possibility that the holders of prominent public functions may use family members to conceal funds which have been obtained as a result of the abuse of the PEP's position(s).

Therefore, it is vital that thorough KYC enhanced due diligence checks are carried out on family members and close associates of PEPs.

¹The Wolfsberg Group, "Wolfsberg FAQs on Politically Exposed Persons" [http://www.wolfsberg-principles.com/pdf/faq/Wolfsberg_PEP_FAQs_\(2008\).pdf](http://www.wolfsberg-principles.com/pdf/faq/Wolfsberg_PEP_FAQs_(2008).pdf)



Since 1999, we have developed our own in-house methodologies to help identify and analyse PEPs. We have therefore been able to help numerous clients fulfill FATF (Financial Action Task Force) recommendation 12 which requires the determination that a customer is a PEP and that this customer is therefore subjected to enhanced scrutiny.

Do Individuals Ever Stop Being Classified as PEPs When They Have Left Office?

This is dependent on the individual/s involved, their influence and seniority and must be judged on a case-by-case basis. If an individual ceases to hold a prominent public position, it is entirely possible that they still exert influence in the decision making process or have access to government funds and therefore still pose a significant risk. It is also worth noting that despite no longer holding a prominent public position, the individual's wealth may have derived from their time in office and therefore the possibility remains that the funds may have been obtained illegally. Financial institutions should still exercise heightened scrutiny in relation to such individuals, even when they have left office.

Our enhanced due diligence reports will identify whether the individual should still be classed as a PEP or a former PEP and the possible risks they pose.

Change of PEP Status

Existing clients pose the risk that they might become a PEP after commencing their relationship with you. Therefore, as part of a risk based approach, we recommend that you monitor for change in PEP status and enlist our help to carry out enhanced due diligence checks on all PEPs, whether they are existing or new clients.

How We Can Help

Using years of experience of dealing with PEP and high net worth individuals, we produce tailor-made enhanced due diligence reports in which we seek to confirm the following in respect of PEPs

- Confirmation of identity
- Current and/or previous residential addresses
- Identity documents issued to the subject
- Information regarding the subject's close family members and civil status
- The subject's career history and professional background, including corporate positions and shareholdings
- Any real estate and vehicles owned by the subject
- Any negative or detrimental material regarding the subject and the subject's business interests
- Whether the subject should be viewed as a PEP and/or a close family member or associate of a PEP
- Any links between the subject and organised crime, money laundering, corruption, business crime and/or any other type of criminal activity
- Sanctions risks

We can also carry out investigations into the corporate entities with which PEPs are involved.

We are also adept at unravelling complex business structures and helping to identify the beneficial owners of corporate entities. Over the years, we have identified numerous examples of PEPs circumventing AML safeguards by setting up complex business structures using intermediaries and offshore jurisdictions in order to conceal their involvement in certain transactions and related business dealings.



Country Risks

PEPs contribute to Transparency International's Corruption Perceptions Index (CPI) and the perceived risk of corruption relating to particular jurisdictions. The CPI is an annual survey of over 150 countries. As a result of the survey, each country is assigned a CPI score based on perceptions of the degree of public sector corruption as seen by business people and country analysts.

Proximal Consulting offer country risk reports, which are of particular relevance if the individual in question is from or based in what is considered to be a higher risk country. We analyse national and local risks in each country and provide a detailed examination of political risks, whether the jurisdiction is subject to any sanctions, general business risks, money laundering risks, and corruption risks in order to demonstrate how these factors could affect your business in the short to medium term.

The Cost of Getting It Wrong

There is potential for major and long-lasting impact – both regulatory censure and reputational damage – if financial institutions deal with corrupt individuals and their illegally obtained funds:

“Accepting and managing funds from corrupt PEPs will severely damage the bank's own reputation and can undermine public confidence in the ethical standards of an entire financial centre, since such cases usually receive extensive media attention and strong political reaction.”

Basel Committee on Banking Supervision.

There are numerous examples whereby financial institutions have not fully complied with their KYC obligations in respect of PEPs. In March 2012, the UK's Financial Conduct Authority (at the time, operating as the Financial Services Authority) announced that it had fined Coutts £8.75 million for the bank's failings in relation to taking reasonable steps to establish and maintain AML systems relating to PEPs and other high risk clients. The Financial Conduct Authority's (FCA) investigation into banks' management of high money-laundering risk situations concluded that the Coutts AML team had failed to take a number of steps to gather relevant information to confirm the PEP's source of wealth and funds; failed to record up to date records; and failed to monitor and scrutinise transactions.

For further examples of how banks have managed high money laundering risk situations, see the FCA report located at <https://www.fca.org.uk/publication/corporate/fsa-aml-final-report.pdf>

Need Further Information? We Can Help

If you would like further information about how Proximal Consulting can help you with any of the above topics (including PEPs, high net worth individuals, country risk reports and unravelling complex business structures), please contact us.

² Basel Committee on Banking Supervision, “Customer Due Diligence for Banks” (Bank for International Settlements 2001), para. 43

³ FSA, “Coutts fined £8.75 million for anti-money laundering control failings” (26 March 2012) <http://www.fsa.gov.uk/library/communication/>



In addition, please see our AML training section for information on how Proximal Consulting can help you by providing a high quality, cost effective bespoke solution for your AML training and PEP needs.

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