



Fact Sheet: Politically Exposed Persons

Author: Tamsin Lilley
 Published: October 2016
www.proximalconsulting.com

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)



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 action.”

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.

Fact sheet published in October 2016 & downloaded from www.proximalconsulting.com

© Proximal Consulting – no part of this Fact Sheet may be reused without written permission



Email: enq@proximalconsulting.com

Telephone: +44 (0) 1672 516725

Offices:

Poughcombe Barns
Ogbourne St Andrew
Wiltshire
SN8 1SE
UK

Rue Du Rhone 14
1204-Genève
Switzerland