

Control Risks

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Politically Exposed Persons
How do you manage the risk?

Patrick Matu

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▶ We are a specialist global risk consultancy that helps organisations manage risks, seize new opportunities, and resolve complex issues or crises.

The specialist global risk consultancy

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▶ What is a PEP?

An individual who is or has been entrusted with a prominent public function. It also includes family members and close associates e.g.

- ▶ a current or former senior official in the executive, legislative, administrative, military, or judicial branch of a government (elected or not)
- ▶ a senior official of a major political party
- ▶ a senior executive of a government owned commercial enterprise, 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.

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▶ Are these PEPs?

- ▶ Kariuki is a Kenyan diplomat who is the current Kenyan Ambassador to India, residing in Delhi.
- ▶ Demi is a keen member of a left wing political party and often attends political rallies. She volunteers her time for door to door canvassing during political campaigns.
- ▶ Erica is the CEO of a research corporation that primarily focusses on alternative energy and life sciences. The organisation is funded wholly by a national government.
- ▶ Kananu is a foreign real estate investor and has set up a new company to manage her portfolio. The company has received investment from her best friend from college, who is also the CFO of a state owned oil company.
- ▶ Juan is a professional footballer. His father in law is the current General Secretary of a continental governing body for association football.

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▶ How to identify PEPs – red flag indicators

- ▶ PEPs attempting to shield their identity
- ▶ PEPs' behaviour
- ▶ PEPs' position or involvement in business
- ▶ The industry with which the PEP is involved
- ▶ Business relationship & transactions, purpose of business relationship
- ▶ Product, service, transaction or delivery channels
- ▶ Country specific red flags and indicators

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▶ How to identify PEPs – common sources of information

Sources	Comments
WorldCheck WorldCompliance Dow Jones Risk & Compliance	Private third-party databases; they all search the names of individuals and companies against a global range of official databases and media reports
Google.com	Internet search engine; searches can be made most effective through the use of search strings and various operators
Factiva	Third-party media aggregator and archive; search strings and operators also apply
Company registrars Orbis	Every jurisdiction has an official body responsible for maintaining company registration documents; however, this body varies by jurisdiction – it can be a registrar, or the Ministry of Justice, or others Orbis is a third-party aggregator of corporate records; the information is often incomplete or contains minor inaccuracies, but it is a useful starting point for global research
Court databases	The main issue concerning litigation tends to be whether court records are centralised or not; in many jurisdictions you need to know the district before you can search for litigation
Land cadastres and other property registrars	Asset disclosures are subject to considerable variation by jurisdiction; there are also jurisdictions where the owner may be alerted to any requests for information on the asset

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▶ Due diligence – risk based approach or not?

<p>For all customers:</p> <ul style="list-style-type: none"> ▶ Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information. ▶ Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner, such that the organisation is satisfied that it knows who the beneficial owner is. ▶ Understanding and obtaining information on the purpose and intended nature of the business relationship. ▶ Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship 	<p>Additional measures for PEPs</p> <ul style="list-style-type: none"> ▶ Have appropriate risk-management systems to determine whether the customer or the beneficial owner is a politically exposed person; ▶ Obtain senior management approval for establishing (or continuing, for existing customers) such business relationships; ▶ Take reasonable measures to establish the source of wealth and source of funds ▶ Conduct enhanced on-going monitoring of the business relationship.
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▶ Risk categorisation for PEPs

<p>High Risk – Level 1 PEPs</p> <ul style="list-style-type: none"> Heads of state and government Members of government (national and regional) MPs Heads of military, judiciary, law enforcement Top ranking officials of political parties 	<p>Medium Risk – Level 2 PEPs</p> <ul style="list-style-type: none"> Senior officials of military, judiciary, law enforcement Senior officials of other state agencies and bodies Senior members of religious groups Ambassadors, consuls, high commissioners
<p>Medium Risk – Level 3 PEPs</p> <ul style="list-style-type: none"> Senior management and board directors of state owned businesses and organisations 	<p>Low Risk – Level 4 PEPs</p> <ul style="list-style-type: none"> Mayors and members of local, county, city and district assemblies Senior officials and functionaries of international organisations

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