



**Anti-Money Laundering and
Anti-Terrorist Financing Training for
Producer and their employees**



Agenda

- Refresher on money laundering
- Review our compliance regime – why we do what we do
- Q&A



What is Money Laundering?

- Any act or attempted act to disguise the source of money or assets derived from criminal activity.
- The act of transforming dirty money into clean money.
- Concealing or converting property or its proceeds, knowing or believing the property was derived from the commission of an offense (“Predicate offence”).

What are Some Examples?

The Canadian Life and Health Insurance Association (“CLHIA”), which represents our insurance suppliers, has provided us with some examples that apply to our business, which we’ve modified for use with MGAs.



SCENARIO NO. 1 - NO PICTURE I.D.

When a potential customer meets with you to purchase a policy, you ask for a Driver's Licence or Passport. The potential customer shows a "passport" with no picture, saying that it is a military passport and that military passports do not have pictures. When asked for another form of ID, the person is unable to produce another and becomes irate, questioning whether the insurance company wants her business.





SCENARIO NO. 2 – CHANGE IN PAYMENT BEHAVIOUR

You notice that for the third Friday in a row a small business owner gives you a payment of exactly \$9,500 in money orders to add to his individual variable insurance contract.





SCENARIO NO. 3 – HIGH RISK BUSINESSES

A jeweler/precious metal dealer applies for a corporate owned life insurance policy. Valid articles of incorporation and documents provided verify its identity is accurate and complete. You notice that on the first of every month, the dealer requests a loan, which is immediately paid back with cash equivalents.





SCENARIO NO. 4 – DISREGARD FOR MONETARY LOSSES

A policy owner requests to surrender of an annuity, which was held for less than one year. The owner indicates that the fees and losses do not matter and demands to make the surrender immediately, asking that the money be wired to an account located in Europe.



SCENARIO NO. 5 - FOREIGN CLIENTS AND OVERSEAS MARKETS

You find out that two of your clients currently reside in North Korea although the address of record of both clients is in your province. Both contracts have been in force for 10 years and were issued in Canada.

You subsequently learn that one life insured lives in North Korea but the policy owner resides in your province. The other client is both the owner and insured of her policy and also currently lives in North Korea. Both policies are being paid via electronic bank drafts with funds from Canadian credit unions.



SCENARIO NO. 6 – KNOW YOUR CUSTOMER

- A customer provides you with eighteen money orders that total \$9,088, ranging from \$88.00 to \$1,000 in amount to pay the initial premium on his life insurance policy.
- The prospective insured is a 25-year old male who does not have a chequing account. He tells you his country of birth is Colombia, his current address is in another province and he owns a Columbian restaurant in your community.



SCENARIO NO. 7 – SUSPICIOUS TRANSACTION MONITORING

A customer submits what appears to be a \$15,000 bank draft from Tulips Bank in The Netherlands for payment of insurance premiums. The insured's name and policy number are written on the cheque, which appears to be in U.S. dollars. The name of a not-for-profit organization is printed toward the bottom of the cheque.





SCENARIO NO. 8 – CRIME CONNECTION AWARENESS

You become aware through the media that one of your long-standing clients was involved in organized crime activities in a foreign country. The insurance policies have been on the books for many years. One provides for a death benefit of close to \$1 million. The other is a UL product with a cash value of over \$500,000.



What Laws Apply to You?

- The Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its regulations “The Act.”
 - A federal law aimed at detecting and deterring money laundering and the financing of terrorist activities. This is a ***national priority***.
 - Similar laws around the world have the same objective. There’s a lot of cooperation.



Who Enforces the Law?

- The Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”) established as independent financial intelligence unit.
 - Collects and coordinates data in effort to recognize money laundering.
 - Primary responsibility for ensuring compliance with the Act.
 - Has authority to audit us without notice and levy penalties.





Why Do We Care?

1. The kinds of criminal activities behind money laundering threaten our way of life.
2. Somebody financed 9-11 attacks and the bombing of the Madrid subway system. Civilized countries around the world have united to fight back against terrorist financing.



If That Doesn't Convince You

- The penalties for non-compliance are steep:
 - Failure to file a required report with FINTRAC = up to 5 years in jail and/or a fine of \$2,000,000.
 - Failure to maintain a required record = From \$500,000 to \$1,000,000 for each offence.
 - Failure to implement a compliance regime and/or failure to assist FINTRAC in a compliance review = up to 5 years in jail and/or a \$500,000 fine.
 - Disclosing a STATR filing = up to 2 years in jail.



More on Penalties

- If any person or entity covered under the Act commits an offence, ***any officer or director may be*** party to and guilty of the same offence and subject to the same penalties, depending on the facts.
- This ensures responsibility and accountability.



Immunity and Due Diligence Defense

- Criminal or civil proceedings can't be brought against us for making reports in good faith.
- Complying with the requirements of the Act provide us with some measure of protection if we do miss something.



What Are the Stages of Money Laundering?

- Placement
- Layering
- Integration





Which One is Most Likely to Happen to Us?

- Show of hands



Why are Insurance Products and Mutual Funds Attractive?

- Lots of investment options
- Liquidity
- Portability and ease of transfer
- Can purchase in large amounts without triggering a regulatory inquiry
- Insurance changes the form of the funds
- Sometimes money launderers use dirty money to buy insurance because they need insurance like the rest of us



What are the Rules that Apply to You?

- 1. Mandatory Compliance Regime** – you must adopt a compliance program and ensure that your employees and those who act on your behalf comply with the Act.

Independent producers do not act on behalf of MGAs or insurers for these purposes.



Mandatory Compliance Regime

- Appointment of Compliance Officer
- Development, application and maintenance of up-to-date written policies and procedures.
- Documented risk assessment
- Ongoing training program for staff
- Regular review of policies and procedures (at least every 2 years)

Who is our Compliance Officer?

- Add Name and Contact Information here for all Compliance.
- Also good to add Compliance org. chart if you have one.



What are Our Policies and Procedures?

- Written policies and procedures are maintained by Compliance Officers
- Copy is on our website
- We're walking through them in this training session, but all staff should read and be familiar with the contents before each AML training session.





Trust Your Gut

According to FINTRAC, “as a general guide, a transaction may be connected to money laundering or terrorist activity financing when you think that it (or a group of transactions) raises questions or gives rise to discomfort, apprehension or mistrust.”

You’re looking for things that seem out of the normal.



Client Service Checklist

1. Does this transaction create an overfunding situation?
2. Is a lawyer, power of attorney, accountant or someone else acting for the client?
3. Does the policy file show whether a 3rd party or PEFP was involved in original sale? Is a 3rd party or PEFP involved now?
4. Does transaction involve trusts, corporations, foundations, charities?
5. Is this a change of banking, address, payor, owner or beneficiary?
6. Is this a free look return?
7. Is this a dump in or additional deposit of \$ or more?





Client Service Checklist

- 8. If a lump sum of \$100,000 or more, have you gotten a PEFP determination form?
- 9. Does the owner's or payor's occupation generate a lot of cash, if known? (i.e. vending machines, variety stores, pizzerias, jewellers, metal dealers, money service businesses etc).



Escalation

- All PEFPs
- Any time something doesn't seem right
- Whenever the answers or other information available cause staff to be concerned about what is being attempted with application or inforce transaction.



Making Reports to Regulators

- 1. Suspicious Transaction or Attempted Transaction Report (“STATR”)



STATR Rules

You are required to:

- Submit within 30 days of (Compliance Officer) deciding you have *reasonable grounds* to suspect a transaction or attempted transaction relates to money laundering or terrorist activity financing offenses. No minimum dollar threshold.
- Take *reasonable measures* to ascertain the identity of the person making/attempting the transaction unless you believe this would tip the person off. You can't disclose to the customer (or producer) that you have filed a report. This information should be closely guarded by Compliance Officer.
- Keep a copy of any STATRs you file.



Procedure for STATRs

- If a review triggers concern about a transaction, refer it to the Compliance Officer *immediately*.
- The Compliance Officer should immediately review **FINTRAC Guideline 5** and decide *whether* to report and *what* to report.



Common Suspicious Transaction Indicators – The Client:

- Doesn't want mail sent to home address.
- Uses same address but changes recipient's name.
- Is very interested in internal systems, controls, policies.
- Home or business phone has been disconnected or there is no such number when contact is attempted after account opening.
- Insists on quick transaction.
- Frequent transfers among client's products.
- Inordinate delay in presenting incorporation documents.
- All identification is foreign or newly issued.



Other Indicators – (Particularly if There are Other Red Flags)

- Cheque offered is drawn on an account other than client's personal account.
- Free look return.
- Transaction involves payments coming from outside of Canada.
- Using life insurance like a bank account, with frequent premium payments and partial withdrawals.
- Early surrender.



Making Reports to Regulators

2. Large Cash Transaction Report (“LCTR”) - we are required to report within 15 days after the transaction if:

- \$10,000 or more in cash is received in a single transaction or two or more cash amounts within a consecutive 24-hour period that total \$10,000 or more from the same individual or on behalf of the same individual or entity.



Procedure for LCTRs

- MGAs and insurers have a No Cash Policy, but if someone *attempts* to make this kind of payment and you are aware of it, notify the Compliance Officer immediately. You may have to file a Suspicious Transaction Report (“STATR”).





Making Reports to Regulators

3. Terrorist Group or Listed Property Report



Terrorist Group or Listed Property Report Requirements

- Send a report to FINTRAC if you have property in your possession or control that you (or an associated person) **knows** is owned or controlled by or on behalf of a terrorist group or listed person. This includes a premium payment, benefit payment, or policy.
- Criminal Code of Canada requires each Canadian, regardless of where residing, to disclose to CSIS and the RCMP the existence of property in that person's possession or control that meets the criteria above.
- If anyone encounters any such circumstance, they may not complete or be involved in the transaction or attempted transaction. They must remove themselves from any involvement. The property might need to be frozen.



Procedure for Terrorist Group or Listed Property Report

- Escalate any issues to the Compliance Officer immediately.
- Compliance Officer will immediately review **FINTRAC Guideline 7**, and take whatever steps are necessary.



Time is of the Essence!!

- You only have a limited time to make any of the required reports before we're in violation of rules, so don't delay in notifying the Compliance Officer of your concerns.
- Better safe than sorry.



Written Records Required

- Producers and insurers are required to keep records of:
 - Large cash transactions
 - Client information
 - Beneficial owners records



Records Retention

- Records must be retained for 5 years from the date created or from the date of the last transaction. Records must be in machine-readable form or in electronic form with a proper electronic signature. They must be provided to FINTRAC within 30 days after a request.



Large Cash Transaction Records (LCTRs)

- Insurers and MGAs have a “No Cash” Policy
- Procedure:
 - Notify the Compliance Officer if you are aware of any *attempt* by a customer to pay in cash, regardless of the size of the payment.



Client ID records

- For life, segregated fund and annuity policies where premiums paid over the life of the policy would reach \$10,000 or more, an insurer and a producer must verify client identity by referring to valid original documents within 30 days and by creating a record that contains the client's name, address, date of birth and principal business or occupation. "Client" for group sales means the applicant.



Client ID Procedures

- Insurers have embedded the ID requirements on their applications.
- Check to make sure that client's name, address, date of birth and principal business or occupation are filled out.
- Client means owner.



Beneficial Owners Records

- Insurers and producers are required to obtain ***(and for high risk clients, update every two years)*** beneficial ownership information on anyone who owns or controls, directly or indirectly, 25% or more of an entity. In that case, the name, address and occupation of all of the corporation's directors must be maintained. FINTRAC believes that having updated records is a key control.



Beneficial Owners Records Procedure

- Insurers have embedded beneficial owner requirements on their applications or other documents.
- Check to make sure that these sections of the application and other forms are filled out.
- Update info on high risk customers yearly.





Not-for-Profit Organization Record

Where a customer is a not-for-profit organization, insurers and producers are required to keep a record that indicates whether the customer is a charity registered with CRA or a non-registered entity that solicits charitable financial donations.



Not-for-Profit Record Procedure

- This information should be required by insurers and provided by you on applications and other forms.
- If you are aware that the client is a not-for-profit organization, check the application and follow the insurer's process.
- If you cannot determine the insurer's process, escalate to the Compliance Officer.



3rd Party Determination Record

Producers and insurers must make every reasonable effort to determine if a policyowner is acting on behalf of a 3rd party. If so, a 3rd Party Determination Record must be created.



3rd Party Determination Record

- ***If an individual***, the Record consists of:
 - Name
 - Address
 - DOB
 - Principal business of the 3rd party
- ***If an entity***, the Record consists of all above except DOB.
- In both cases, the nature of the relationship between the owner and 3rd party must be described.
- If producer or insurer is suspicious about the involvement of a 3rd party, the owner must sign a statement that they are not acting on behalf of a 3rd party.



3rd Party Determination Record Procedure

- Insurers embed questions in their applications.
- If a 3rd party is identified, check to see that the Record is complete.
- If you have any reason to suspect that a 3rd party is involved and the section is not filled out, notify the Compliance Officer.



Politically Exposed Foreign Person (“PEFP”) Record

- Life insurers and producers are required to take *reasonable measures* to
 - determine whether anyone who makes a lump-sum payment of \$100,000 or more for an immediate or deferred annuity or life insurance policy is a PEPF and
 - establish the source of funds any PEPF uses for a transaction.
- A PEPF transaction must be reviewed by insurer’s senior management within 14 days after the transaction.



Politically Exposed Foreign Person (“PEFP”) Record

- *Producers* must create a record of
 - (a) the office/position that causes the person initiating the transaction to be considered a PEFP;
 - (b) the source of funds, if known;
 - (c) the date it was determined the person was a PEFP;
 - (d) the name of the member of senior management who reviewed the transaction; and
 - (e) the date the transaction was reviewed.



Who Exactly is a PEFP?

Anyone who holds or has held one of these positions in a foreign country and their immediate family*:

- head of state or government
- member of executive council or legislature
- deputy minister
- ambassador, attache or counsel
- Military general (or higher)
- President of state-owned bank or company
- Head of government agency
- Judge
- Leader of a political party in a legislature

*spouse, partner, parent, child, sibling, spouse's parent





PEFP Record Procedure

- Most insurers include PEP application questions.
- Submit PEP determination forms and retain a copy.



What About Privacy?

FINTRAC's privacy safeguards include:

- its independence from law enforcement and other agencies to which it is authorized to disclose information;
- criminal penalties for unauthorized use or disclosure of personal information under its control;
- the requirement that police get a court order to obtain further information from FINTRAC; and
- the application of the *Privacy Act* to FINTRAC.





Risk Assessment

- Risk assessment takes into account
 - Product risk
 - Client risk
 - Geographic risk
 - Other risk





Ongoing Staff Training

- Provide training at least once a year
- Look for opportunities to get training through Advocis, IFB, insurers



Regular Review of Policies and Procedures

- Policies and procedures represent “controls” that “mitigate” some of the risks of money laundering.
- You have to kick the tires of your program at least once every 2 years.





Q&A

