

Nexus
Anti-Money Laundering (AML)
and
Combating Financing of Terrorism (CFT)
Training



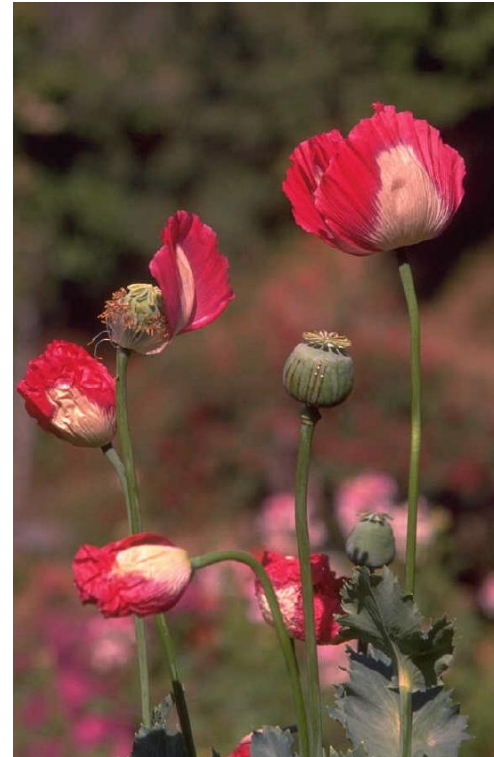
What is money laundering?

- Turning dirty money into clean money.



Sources of illegally gained money

- Drug trafficking
- Illegal gun running
- Theft
- Extortion
- Fraud
- Terrorist activities.



How is it laundered?

- Buying and selling cars
- Through banks
- Online gambling
- Investments
- Property transactions.



3 stages of Money Laundering

- Placement
- Layering
- Integration



Stage 1 - Placement

- The Placement stage represents the initial entry of the “dirty” money or proceeds of the crime into the financial system
- This stage serves two purpose as follows;
 - a, it relieves the criminal of holding and guarding large amounts of bulky cash
 - b, it places the money into the legitimate financial system
- The Placement of the proceeds of crime can be done in number of ways
e.g. Cash could be packed into a suitcase and smuggled to a country, or the launderer could use carriers to defeat reporting threshold laws and avoid suspicion.
Some other common methods include:
 - a, Loan or Credit Card cash payments with illegal proceeds
 - b, Purchasing of gambling chips or placing bets on sporting events
 - c, Currency Smuggling
 - d, Purchasing foreign money with illegal funds through foreign currency exchanges



Stage 2 - Layering

- The Layering stage is the most complex, and often entails the international movement of the funds.
- The primary purpose of the stage is to separate the illicit money from its source.
- This is done by the sophisticated layering of financial transactions that obscure the audit trail and sever the link with the original crime.

e.g.

- The money launderer may begin by moving funds electronically from one country to another
- Then divide them into investments placed in advance financial options or overseas markets.
- Constantly moving them to elude detection, each time, exploiting loop holes or discrepancies in legislation and taking advantage of delays in judicial or police cooperation.



Stage 3 - Integration

- The final stage where the money is returned to the criminal from what seems to be a legitimate sources. Having been placed initially as cash and layered through a number of financial transactions, the criminal proceeds are now fully integrated into the financial system and can be used for any purpose.
- The major objective at this stage is to reunite the money with the criminal in a manner that does not draw attention and appears to result from a legitimate source.
- E.g. Purchase of property, art work, jewellery, or high end automobiles are common ways for the launderer to enjoy their illegal profits without drawing attention to themselves



Combating Financing of Terrorism (CFT)

What is Terrorist Financing?

- Terrorist financing provides funds for terrorist activity. It may involve funds raised from legitimate sources, such as personal donations and profits from business and charitable organisations, as well as from criminal sources such as the drug trade, the smuggling of weapons and other goods, fraud, kidnapping and extortions.
- Terrorists use techniques like those of money launderers to evade authorities attention and to protect the identity of their sponsors and of the ultimate beneficiaries of the funds.

How it is Conducted?

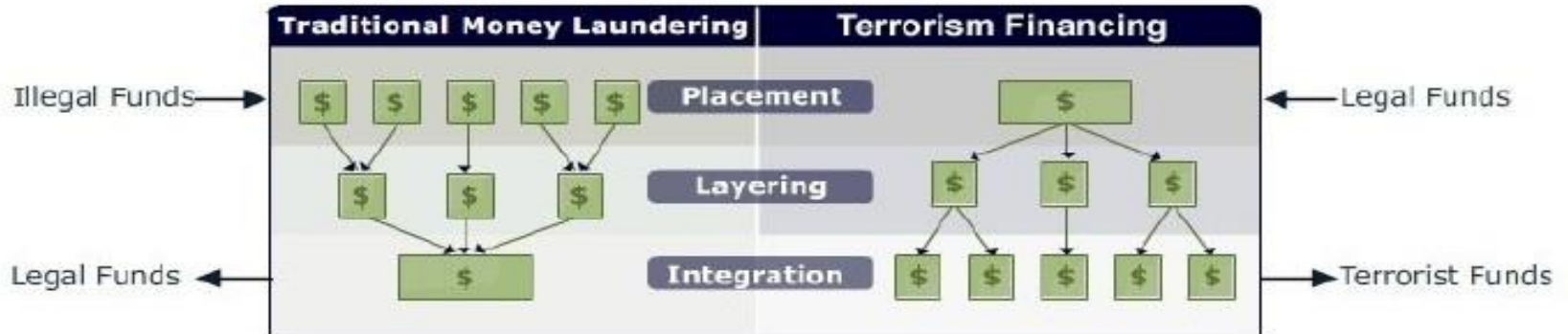
- To move their funds terrorist use the formal banking system, informal value transfer systems, illegal cash transfer (Hawalas), and, the oldest methods of asset transfer, the physical transportation of cash, gold and other valuables through smuggling routes

Revenue Generated

Income is often derived from criminal activities such as kidnapping, extortion, smuggling or fraud.



money laundering vs. terrorist financing



Combating Financing of Terrorism (CFT)

- The Terrorist Financer will want to disguise the illegal ends of the funds, while funding terrorism or receiving money from revenue generation through terrorist activities.
- The need to camouflage the source of funds means that terrorist financing has certain similarities with traditional Money Launderer.
- The monitoring of financial transactions from a financial investigator point of view, is done in order to link the funds to a criminal act.



INTERNATIONAL INSTRUMENTS

- UN Convention Against Illicit Traffic in Narcotics Drugs and Psychotropic Substances (1988) (Vienna Convention)
- International Convention on the Suppression of the Financing of Terrorism (1999) (SFT Convention)
- UN Convention Against Transnational Organized Crime (2000) (Palermo Convention)
- UN Convention Against Corruption (2003) (Merida Convention)



INTERNATIONAL STANDARDS

- Financial Action Task Force (FATF) Forty Recommendations on Money Laundering (2003)
- FATF Special Recommendations on Terrorist Financing (2001) (including Special Recommendation IX on requirements for cash couriers)
- The 40+9 Recommendations, together with their interpretative notes, provide the international standards for combating money laundering (ML) and terrorist financing (TF).
- The FATF recommendations Feb 2012 for International Standards on Combating Money Laundering and The Financing of Terrorism & Proliferation.



Where did the AML and CFT laws come from?

- Financial Action Task Force (FATF)
- Le Groupe d'Action Financiere International (GAFI)
- Created in 1989
- Combat money laundering and terrorist financing
- GCC is a member but not individual GCC states
- GCC role is to seek implementation of AML standards



FATF and the Middle East

MENA FATF created November 2004

17 countries which include

- Bahrain
- Oman
- Qatar
- UAE.



Does Nexus have to apply AML and CFT rules?

Yes it does in all Countries Nexus Operates

Two levels of compliance

- Directly in accordance with National and International laws
- Indirectly through product providers.



National laws

- UAE has AML legislation
...Insurance Authority, Central Bank
and Ministry of Economics
- Bahrain has the law and full regulations
- Qatar has QFC and Qatar State Laws



Nexus adheres to U.A.E. Bahrain, Qatar, Isle of Man (IOM) and International policy on AML and CFT standards

All Nexus Employees have to undergo AML Training and Qualify for Test upon Joining and Annually then after.



Nexus Identity verification (primary): individuals

Requirements vary between product providers

- Certified copy of passport (including Visa page)
- National identity card
- If none available ask why.



Nexus Identity verification (primary): companies

Requirements vary between product providers

Where the premium is paid by a company

- **Standard**

No Objection Letter with reason on the Company letter head

Trade License Copy

- **Non Standard**

Latest annual report and accounts and

Certificate of incorporation or similar

List of directors (no ID required)

List of authorised signatories

Statement of solvency.



Nexus Identity verification (secondary): addresses

Requirements vary between product providers

Verification of address

- Utility bill
- Letter from employer
- Tenancy contract
- Title documents
- Confirmation of visit to the address by the Nexus consultant.



Nexus Identity verification (secondary): addresses

Full details of the physical address

Not just PO Box number and city

Must show...

- Apartment or house number
- Building number or name
- Street number
- District.



Making payment

No Cash Payment is accepted by Nexus

Acceptable methods of payment

- Cheques with account holder's name
- Telegraphic transfer
- Direct debit (not available in our region)
- Credit cards
- Standing instructions
- Banker's draft confirming account paid from
- Internal policy transfers.



Third Party payment

If the payer to the policy premiums is other than the Policy Owner or Life Insured it is termed as “Third Party payer”. Nexus Policy allows blood relatives as third party payer if the primary, secondary proof of identification documents are provided along with the proof of relationship.

Documents needed are;

For Individuals

- Third Party payer’s certified passport copy
- Third Party payer’s Residential proof
- Proof of relationship with the Policy Owner / Life Insured
- No Objection Letter from the Third Party to pay on behalf of the Policy Owner or Life Insured

For Companies

- Trade License copy
- No Objection Letter from the Financial Manager or equivalent post to pay on behalf of the Policy owner / Life Insured



Nexus AML and CFT Country Category Policy

Nexus has categorised countries in four categories for the business acceptance based on the risk levels, and each category has defined level of premium above which the Source of Fund evidence is needed.

For Acceptance of Business;

Category 1 : Annual Premium \$ 100,000 or \$ 1,000,000 Single Investment

Category 2 : Annual Premium \$ 50,000 or \$ 500,000 Single Investment

Category 3 : Annual Premium \$ 30,000 or \$ 300,000 Single Investment

Category 4 : Annual Premium \$ 15,000 or \$ 150,000 Single Investment

- **U.A.E. , Bahrain, Qatar** : **category 1 countries**
- **Kuwait, Oman** : **category 2 countries**
- **India, Saudi Arabia, Lebanon** : **category 3 countries**
- **Pakistan, Nigeria, Yemen** : **category 4 countries**

Nexus Country category may differ from that of the Providers. In such situations Nexus follow's the Providers Guidelines.

Nexus has financial limits, above which additional documentary evidence may be required to verify the Sale.



Product Providers

Providers must abide by the AML Laws of those Countries in which they are incorporated and operate

Zurich/FPI must comply with Isle of Man legislation on AML

- Criminal Justice Act 1990
- Anti-money laundering code 1998
- Financial Supervision Commission
- Insurance and Pensions Authority
- Origin of wealth form

All other providers to some extent have Know Your Client (KYC) procedures in place.



Origin or source of wealth questionnaire

- Declaration signed by the client at first transaction
- Lower premium business → information only
- Higher premium business → documentary evidence.



Suitable Certifier

Q) Who is the Suitable Certifier?

A) Is the person who can certify the authenticity of the document

Suitable certifier

- They certify documents as true copies of the original

Subsequent transactions

- Normal expected customer activity
- Significant or abnormal transactions.

After a Nexus Consultant is Authorised a “Suitable Certifier” Registration Number will be applied for, from the Provider



Suitable certifier

Requirements vary between product providers

A person whose signature is accepted as trustworthy

Copies of documents can be “certified”

- Write “Certified to be a true copy of the original”
- If a photo “Certified that this photo is a true likeness of (name)”
- Print your name
- Sign
- Date
- State your job title and company name.



The Zurich origin of wealth questionnaire (OWQ)

MSP11279 (04-12)

Based on total premium levels

Existing premiums are **included**

Country of residence based risk categories

- Bahrain, Qatar, UAE : category 1
- Oman : category 2
- Kuwait, India, KSA : category 3
- Egypt, Iran, Syria, Lebanon : category 4



The Zurich origin of wealth questionnaire (OWQ)

- The form is required in **all** cases
- It is an integral part of application forms.



Zurich's source of funds questionnaire (SFQ)

Required where

- **Total** annual premiums to ZIL \$6,800 or more
- Lump sum of \$ 27,200 or more

Additionally...

- Bank statements, salary certificate or audited accounts where \$100,000 p.a. or \$1,000,000 lump sum or more.



The image shows a Zurich source of investment funds questionnaire (SFQ) form. The form is titled "source of investment funds questionnaire" and features the Zurich logo. It is divided into several sections: "Introduction", "Personal details", and "Financial details". The "Introduction" section contains a disclaimer. The "Personal details" section includes fields for "Full name of policy owner", "Title (if applicable)", "Forename(s)", "Full home address", "Family name", "Occupation", "Policy number", and "Date of application". The "Financial details" section includes fields for "Bankers name", "Address", "Account number", "How long has the account been held?", "Are there any other parties directly involved with this application (i.e. beneficial owners, lenders, potential borrowing)?", and "Where the life insured differs from the policy owner what is their relationship?". The form is signed off by "Zurich International Life Limited".

Friends Provident International (SOW 10-11)

Requirements

- Source of wealth section in application form
- Lower and higher risk categories
- Country of residence based
- UAE : Category 1
- Bahrain, Kuwait, Oman, Qatar : Category 2
- Egypt, KSA, Turkey, India : Category 3
- Iran, Iraq, Pakistan, Yemen : Category 4

As at 01-Jan-2013 No FPI sales are currently permitted in Lebanon



Friends Provident International

Limits

- Category 1: \$ 80,000 pa Regular Premium or \$ 1,238,000 Single Premium
- Category 2: \$ 60,000 pa Regular Premium or \$ 495,000 Single Premium
- Category 3: \$ 35,000 pa Regular Premium or \$ 170,000 Single Premium

Additionally...

- Client Confirmation Form will be required, irrespective of the Country Category, if the Premium is above \$ 30,000 per annum
- Financial Questionnaire for ALL Investment Policies



Other providers

- Similar requirements
- Regulatory body e.g. Generali = Guernsey



World Check

World Check site is used by Nexus for customer identification process . All Individuals and Companies associated in a sale including Policy Owner, Life Insured, Payer and Beneficiaries are checked on the world check site for the following

- Politically Exposed Persons (PEP) are persons, natural or legal, entrusted with prominent public functions, their immediate family members or persons known to be close associates of such persons
- Sanctioned countries- There are currently no FATF non-cooperative countries or territories.
- Terrorist Financing- Individuals or Companies associated in Terrorism and its funding
- Financial Fraud- Individuals involved in financial fraud
- Financial Crime- Individuals or Companies involved in financial crimes



Risk Mitigation

Nexus applies Risk based approach in AML procedures and processes

The Client's are defined as three types Low / Medium / High.

All Medium and High risk Client are AML checked on annual basis & on the trigger events

Low risk client are checked only on the trigger events.

Trigger Events- Reinstatement of Paid Up or Lapsed Policy, Total Assignment, Beneficiary change, Maturity, Full Surrender, Partial Surrender, Increment of Premium or Benefits of the Policies.

The Client's attitude to risk towards the Investment is based on five levels as follows;

1. Low Risk
2. Low / Medium Risk
3. Medium Risk
4. Medium / High Risk
5. High Risk



Money laundering reporting officer (MLRO)

The Nexus MLRO for U.A.E. is...

Hussain Ayyash

The Nexus MLRO for Bahrain is...

Maryam Redha

The Nexus MLRO for Qatar is...

Tara Quin



What must the MLRO do?

- Considers all internal reports of a suspect transaction
- Decide whether money laundering is suspected
- Report to the local enforcement agency
- Record their actions
- Act as central coordination point.



Your personal obligations

To summarise...

- You are forbidden by law to **assist** money launderers
- You must report anyone you **know** to be laundering money
- You must report anyone you **suspect** is laundering money
- You **must not tell** anyone of your suspicions (except MLRO)
- You have **protection** under law for any breach of confidentiality.



Penalties

Fines and/or jail:

- If involved in ML
- If fail to report
- If you tip-off



Suspicious transactions

...where a person in a financial institution has **knowledge** or **suspicion** of money laundering.



Suspicious transactions

Evasiveness

Concealment

- Of identity
- Of beneficial owner's identity
- Of ownership of funds

Unwilling to produce evidence

Application beyond lifestyle.



Suspicious transactions

- Unexplained changes in investment pattern
- Acting against advice given
- Inappropriate investment
- Interest in surrenders, large withdrawals
- No correspondence requests
- Complex ownership structures.



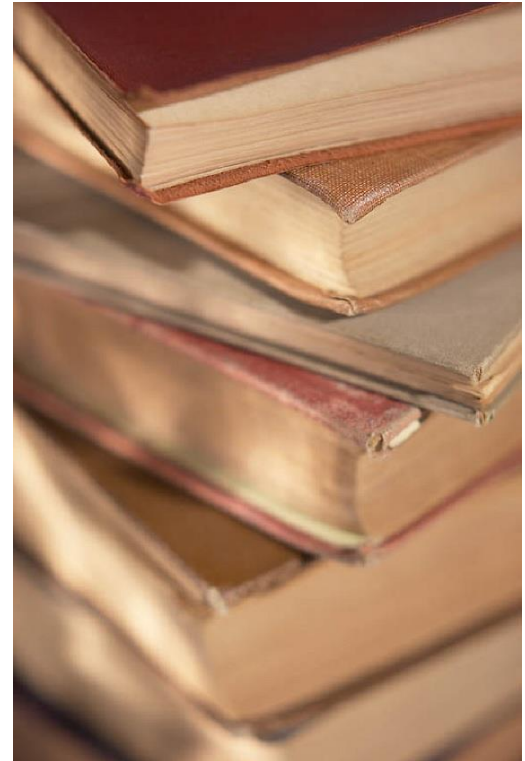
Suspicious transactions

- The presence of any one or more of these examples does not mean money laundering is **occurring!**
- Suspicion can be aroused **at any time** when dealing with a client or prospect...the time is irrelevant
- Your responsibility still applies even in a rejected transaction case.



Knowledge

- Actual knowledge
- Wilfully shutting one's mind to the obvious
- Failing to make such enquiries as a reasonable and honest person should.



Suspicion

- Is **personal** and **subjective**
- It falls far short of **proof**
- Proof is based on firm **evidence**.



When should you report?

- The fact that a suspicion **has been formed** means you are legally obliged to report it
- Suspicion **is not transferable**
- Managers, in fact no-one, can stop you reporting
- Remember the penalties!



When should you report?

- If you are suspicious **report it!**
- Always use the suspicion reporting form
- Check your facts
- Say why you are suspicious and be **specific**
- Do not tell anyone other than the MLRO
- Never place a copy on the client file or make file notes
- Once reported, proceed as if all is normal.



Giving the game away or tipping-off

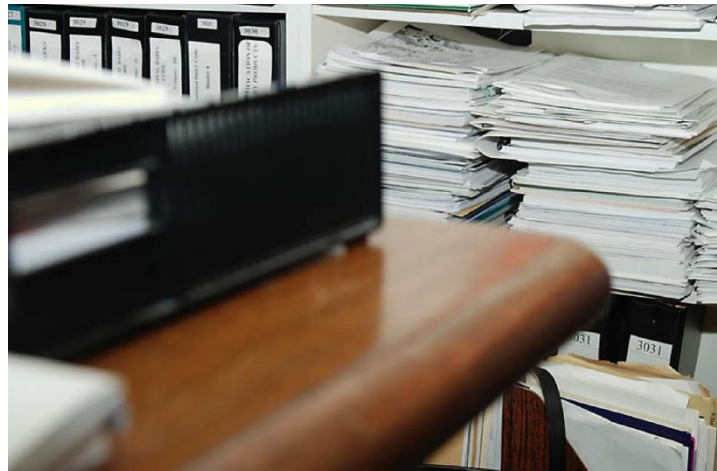
Remember it is an offence under law to prejudice an investigation by

- Informing the person under suspicion
- Informing anyone else of a disclosure having been made
- Informing anyone that the police or authorities are carrying out an investigation (or about to).



Keeping records

We must keep records of Customer ID evidence for **6 years from the end** of the business relationship.





Foreign Accounts Tax Compliance Act (FATCA)- United States of America

- **When is it to be implemented?**

FATCA is due for implementation in 2014

- **What is the implication?**

The FATCA Requires individuals to report their financial accounts held outside of the United States and foreign financial institutions to report to the [Internal Revenue Service](#) (IRS) about their American clients.

- **Why it was implemented?**

- Citizens of United States of America are obliged to pay tax on their Global Income. FATCA was designed primarily to combat offshore tax evasion and recoup federal tax revenues.





Foreign Accounts Tax Compliance Act (FATCA)- United States of America

- **Who has already signed the Inter Governmental Agreements (IGA's)?**

Several Countries have signed Inter Governmental Agreements (IGAs) with US including recently Jersey, Guernsey and the Isle of Man to implement the Foreign Account Tax Compliance Act.

- **What is expected by USA from this act?**

US Congress estimates that tax evasion by U.S. persons equates to losses of up to \$ 100 billion per annum, the fundamental objective of FATCA is to identify those U.S. persons who may be evading tax through the use of offshore investment vehicles.

- **What is the Penalty for not complying with the FATCA?**

The Institution would be subject to a 30% withholding tax on any “withholdable payment” made to its proprietary account.





Foreign Accounts Tax Compliance Act (FATCA)- United States of America

▪ **What we as a Company may have to do to Comply with FATCA**

Multinational financial institutions will need to make significant process and technology changes to comply with FATCA. While most FATCA provisions don't take effect until the middle of 2014, many financial institutions have already begun to prepare. Financial institutions should consider steps such as:

- Performing a current state assessment of your systems and operations.
- Conducting gap analyses against your identified requirements.
- Developing action plans to implement changes required for FATCA compliance.
- Evaluating your legal entities to determine if they are FFIs or otherwise covered by FATCA.





Foreign Accounts Tax Compliance Act (FATCA)- United States of America

▪ **As per FATCA the U.S. Clients are of two categories:**

1. High Value Client (with \$ 1,000,000 cash value among all provider policies)

2. Lower Value Client (with \$ 250,000 cash value among all provider policies)





Foreign Accounts Tax Compliance Act (FATCA)- United States of America

- **Following Process need to be established;**
 - 1. Identify U.S. citizens and Beneficial Owners among Nexus existing Clients.**

 - 2. Identify total premium being paid by each U.S. Client including all providers policies.**

 - 3. Identify total cash value of all policies of a particular U.S. Client.**

 - 4. Additional due diligence to be observed in all New Business related to the Know Your Client (KYC), Source of Fund (SOF), Origin of Wealth (OOW) of the U.S. Clients and Beneficial Owners**





Foreign Accounts Tax Compliance Act (FATCA)- United States of America

- **Following Process need to be established (continued)**

5. Evidence of Income/ Source of Fund / Origin of Wealth to be obtained in

New Business cases of the U.S. Clients with total annual premium \$ 100,000 AP and above

OR

\$ 250,000 cash value of all existing policies

OR

\$ 1,000,000 cash value of all existing policies

6. We need to report to the Local Regulatory Body on Quarterly basis.



