

NEXUS COMPLIANCE TRAINING



Money Laundering, Fraud and Terrorist Financing

MONEY LAUNDERING - process where proceeds of crime (drug trafficking, illegal gambling, prostitution, fraud, corruption, etc.) is transformed to appear as legitimate money or assets.

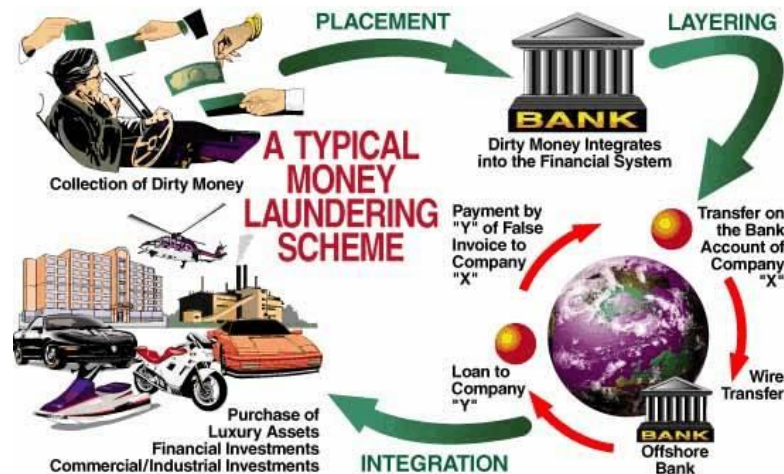
This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardizing their source. When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

Stages of Money Laundering

Placement – the initial entry of dirty cash or proceeds of crime into the financial system

Layering - the primary purpose of this 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.

Integration - stage where the money is returned to the criminal from what seem to be legitimate sources.



FRAUD

Insurance is based on the principle of mutual benefit and is designed to protect against significant, but uncertain, losses. Insurance fraud undermines this system, as fraudulent applications and claims deplete the funds paid in by the many honest customers to cover genuine losses. Fraud has an impact not only on insurers but also on their customers. It also has an impact on society in general because insurance fraud can be used to fund criminal activity. However not all fraud proceeds are laundered as funds may be used directly to purchase valuable fixed asset or purchase tickets for a dream holiday. Therefore the basic stages of money laundering are not carried out.

Insurance fraud is not a victimless crime as most believe. Although there is no physical damage done to people, the vast majority of honest customers end up paying for the dishonesty of the few through higher insurance premiums.

At Nexus, we are committed to prevent fraud and we are duty-bound to report the matter to the relevant authorities.

What does it mean for me?

I have noticed that a co-worker reimburses claims for family members and friends far more frequently than would be expected. Should I be concerned? **YES. This looks like misusing one's position for fraudulent purposes. You should take appropriate action and report your concerns.**

Here are some examples

- A man faked his own death by drowning. He was traced to Panama, where he was living with his wife off the proceeds of his life insurance policy. Both were convicted and served several years in prison.
- An individual faked the circumstances of how he sustained injuries that he had suffered in a skiing accident, an activity not covered by his travel insurance. He first alleged the injuries had been caused by another skier. When this was investigated and rejected, he made an exaggerated fake claim, alleging the injuries had been sustained in a car accident. Again, the claim was investigated and disproved. The man received no payment for his genuine injuries.

Whatever its form, the outcome of fraud is the same: an unfair cost for the honest policyholder.



TERRORIST FINANCING

A terrorist group, like any other criminal organization, would need to build and maintain an infrastructure to facilitate the development of sources of funding, to channel those funds to the providers of materials and or services to the organization, and, possibly, to launder the funds used in financing the terrorist activity or resulting from that same activity.

The terrorist financier will want to disguise the illegal end of the funds, while trying to maximize the revenues for the organization sponsored. It may be necessary to disguise the source of the funds, as well, either because such funds have an illegal origin, or because the organization wants to preserve the continuity of the legitimate financing. Due to sometime legal origin, terrorist financing is more challenging or difficult to detect. The need to camouflage the source of the funds means that terrorist financing has certain similarities with traditional money laundering, namely the use of three stages to place, layer and integrate the funds in the international financial system.

We strive to meet our client's needs and achieve our financial goals, but we do not engage in transactions that could be illegal or compromise our legal status and ethical standards..

Fines & Penalties

In December 2012, HSBC Holdings Plc agreed to pay \$1.92 billion in fines for allowing itself to be used to launder drug money from Mexico.

source: Reuters

\$300 million fine imposed on HSBC in August 2014 for not detecting possible money laundering of high-risk transactions from Hong Kong and UAE. This came 2 years after the bank paid \$667 million to settle charges it violated US sanctions by handling thousands of transactions involving Iran, Myanmar, Libya and Sudan.

source: Gulf News

Jordan's Arab Bank Plc has been found liable in financing Hamas terrorist attacks. The plaintiffs, about 300 victims of the attacks or their relatives, are seeking unspecified damages from Arab Bank that will be decided at a separate proceeding.

source: Bloomberg



Suspicious Transaction and Suspicious Transaction Reporting

A suspicious transaction may happen anytime during the life of the policy. There are many reasons why you might become suspicious about a transaction or activity. Often it's just because it's something unusual - perhaps a customer spells his or her name differently from one transaction to another, or is hesitant in providing KYC documents. Maybe he shows more interest in the cancellation or surrender of an insurance contract than in the long-term results, or made unusual requests that didn't seem to make sense. Perhaps the transaction he wanted to make just didn't add up commercially.

Nexus Compliance applies Enhanced Due Diligence checks when the following, occurs:

- **Full surrender** of a medium to long term policy during the early years of the policy. As this result in a substantially high surrender value and low claim proceeds, this transaction is considered suspicious.
- **Absolute Assignment.** Any change of policy ownership is highly suspicious as most money launderers are using this tactic to distance the money from its source. For this reason, some of our providers do not accept absolute assignment requests unless they are blood related. There are also other suspicious event such as when a consultant negotiates assignment for a consultant negotiates assignment from a client to himself/herself.
- **Payment to and from a unrelated Third Party Payor.** We have to establish the relationship between parties when a third party is paying the premium or receiving the claim proceeds. It is unusual behavior when a third party voluntarily funds someone else's or simply give away his funds to an unrelated party.



During trigger events, a full AML background check is conducted by the Compliance Team to ensure that:

- **We are dealing with legitimate clients** – Apart from obtaining the client’s proof of ID and proof of address, World Check, provides us assistance in investigating the client’s background
- **The source of fund matches the client’s job profile and the evidence along with it** – A client declaring x amount of income but can only provide evidence of a portion of the said amount is highly suspicious. A documentary evidence of client’s income may be requested even if the set threshold has not been reached. Should suspicion arises, the relevant documents will be raised as a requirement.

Trigger Events	New Business	Partial Surrender
	Increment	Full Surrender
	Reinstatement	Change of Payor

All Nexus staff and consultants are encouraged to be vigilant and exercise due diligence on every transaction. Should you come across any suspicious transaction, you are required to report your concerns, in writing, to the MLRO (Money Laundering Reporting Officer) only.

Do’s and Dont’s

- Do provide a comprehensive report regarding your suspicion (details such as time/date, address, employment, name of suspected party, cause of suspicion, status of transaction, etc., should be included in the report)
- Do submit your concerns within reasonable time of identification
- Do continue the transaction with the client to avoid alerting the client of your suspicion as it could be considered as “Tipping Off”
- Do report confidentially without involving unrelated parties
- Do provide a clear trail of your cause of suspicion and as much detail as possible
- Don’t mark your files that would indicate that a suspicious transaction was reported
- Don’t expect an update about the investigation
- Don’t discuss your suspicion with anyone
- Don’t conduct your own investigation after the report has been done

Your MLRO’s

HUSSAIN AYYASH - UAE and Kuwait
Hussain.ayyash@nexusadvice.com

MARYAM REDHA - Bahrain
Maryam.redha@nexusadvice.com

TARA QUIN - Qatar
Tara.quin@nexusadvice.com



Our Regulators

Nexus Insurance Brokers LLC UAE (UAE Insurance Authority)

Nexus Financial Services WLL Bahrain (Central Bank of Bahrain)

Nexus Financial Services WLL Qatar (Qatar Financial Center Regulatory Authority)

Nexus Financial Services (Insurance Brokers) LLC (Kuwait Chamber of Commerce and Industry)

As Nexus deals with international insurance providers and the local regulators are following the international standards, we as a company are required to comply with international financial regulations. The formation of the Financial Action Task Force and the passing of the US Foreign Account Tax Compliance Act have changed the way we processed local business.

The **FATF or Financial Action Task Force** is an intergovernmental body initiated by G7 to combat money laundering and terrorist financing. The FATF issues a blacklist also known as the Non-Cooperative Countries and Territories (NCCT) List. The countries included in the list are the countries perceived to be non-cooperative in the fight against money laundering and terrorist financing. NCCT's are usually blocked from the global trading community and suffers the impact of the economic sanction. The list is updated regularly where countries are added or deleted based on FATF's global AML standard. North Korea and Iran are currently labeled as NCCT.

With regards to the US FATCA or US Foreign Account Tax Compliance Act, Nexus complies by ensuring that customers are identified correctly and requires each client to declare whether they are United States persons or not. Foreign Account Tax Compliance Act is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients.

A client is deemed as a US person if he is

- A US green card holder
- A US citizen
- A US resident
- A US tax payer



Basic Principles of Financial Services

UTMOST GOOD FAITH (Uberrimae Fides)

The minimum standard between client and consultant to act honestly toward each other and not mislead or withhold information from each other.

A client is required to disclose any previous health problem and as a consultant, you are required to disclose critical information about the policy and its terms.

CONFLICT OF INTEREST

A situation that has the potential to undermine the impartiality of a person due to a clash between the person's professional and self interest.

Members of Nexus owe their primary professional responsibility to their employing institutions, and their primary Commitment of time and intellectual effort should be to the service and activity of the organization. External activities that take time away from your responsibilities at Nexus should be discussed with your relevant manager to obtain their concurrence that the activities do not constitute a conflict of time commitment. **A DECLARATION FOR CONFLICT OF INTEREST & TIME COMMITMENT FORM** should be submitted and approved prior to engaging in external activities.



ANTI-BRIBERY AND CORRUPTION

Bribery – an act when a person offers, gives or promises to give a "financial or other advantage" to another individual in exchange for "improperly" performing a "relevant function or activity".

It can also be the offence of being bribed, which is defined as requesting, accepting or agreeing to accept such an advantage, in exchange for improperly performing such a function or activity.

Corruption - is an abuse of a position of trust in order to gain an undue advantage.

Ensure that all gifts, entertainment and other advantages, either given or received, in connection with business activities are appropriate to the circumstances, and moderate in terms of value, frequency and quantity.

Example: A consultant gives a box of chocolates to the Admin team with a note saying "Thanks for all your help". This is a token of appreciation therefore is not classified as a bribe. Weeks later the same consultant orders lunch for the Admin team and takes a few individual team members for dinners. The next time he visits the office, he pass by the Admin Team area bringing gifts from his recent trip and requests to prioritize his cases.

The succession of giving gifts and treating the team for lunch/dinner with the request to give favorable treatment are inappropriate and should be reported to management.



DATA PROTECTION

Clients have the fundamental right to privacy. As we hold client's information, Nexus is responsible to keep the data safe, correct and accessible.

Information disclosed by clients should be considered confidential and should be shared only to authorized individuals/companies.

Username and passwords are to be safeguarded at all times. Client's data saved in consultant's personal laptop should be secured to avoid unauthorized access which can result in identity theft.

Always remember, the policy is a contract between the insurance provider and the policy owner. Should you need to communicate directly with the payor, copy the policy owner in your email.

With regards to record keeping, Nexus is required to keep files for 6 years from the end of business relationship for Qatar. Nexus UAE and Bahrain are required to keep files for 10 years from the end of the business relationship.

Barclays blasted over 'catastrophic' theft of thousands of customer files. The bank is under scrutiny by regulators and could face a hefty fine after thousands of confidential customer files were stolen in a data breach. The security breach was reported in February 2014, by a whistleblower who claimed the files were just a sample from a haul of stolen data containing the details of 27,000 individuals.

source: The Guardian

Fines & Penalties

In 2010, The Financial Services Authority has fined Zurich Insurance, GBP 2.275 million over an incident in which it lost 46,000 customers' details on an unencrypted back-up tape.

source: Financial Services Authority



DUE DILIGENCE

Refers to the care a reasonable person should take before entering into an agreement or a transaction with another party.

Risk assessment is required in various stages of the transaction. Identification and verification of customers and beneficial owners should take place before, during the course of conducting the business or at the very least before completing the financial transaction.

AML/KYC (REGULATORY REQUIREMENTS)

- Proof of ID
- Proof of Address
- Certification (required for copy documents)
- Origin of wealth
- Source of funds



FATCA – Foreign Account Tax Compliance Act Form.

Some insurance providers have imbedded the FATCA form in the application form. If an older application version has been used, a separate FATCA form would need to be completed.



High Premium Audit (HPA)

To make sure the sale of a product is in-line with Nexus' sales standards, the sales manager or sales director verifies the client's full understanding of the policy terms and conditions. This may be done personally during policy delivery or over the phone if the client is unavailable.

This is conducted when one of the below criteria is met:

- Commission is above the set threshold based on consultant level
- Additional new business within the last 6 months from the same client and reached the set commission threshold

Consultant Level	HPA Trigger
Authorized Consultant	USD 6,000
Senior Consultant	USD 8,000
Executive Consultant	USD 10,000
Senior Executive Consultant	USD 12,000
District Manager	USD 15,000

How it is done?

The HPA form is completed and is required to be signed by the client. It is imperative that the relevant comments are provided by the concerned Sales Manager or Sales Director who then signs the form together with the selling agent.

NOTE: Commission on all HPA policies will be released after the Compliance Department have cleared the HPA forms.



Professionalism and Best Sales Practice

The basic principle is that financial advisers should observe high standards of integrity at all times. Personal integrity and honesty protect the client's interests, the adviser's reputation and public confidence in the industry.

Adviser integrity requires that clients should not be misled in any way, however trivial. It requires that advice to clients must be determined solely by the client's best interests and that no product recommendations should be influenced by the amount of commission the adviser will receive on the sale.

Personal integrity, however, needs to be supported by considerable professional expertise and competence so that financial advisers can act with due skill and diligence.

OUR MISSION STATEMENT

At **NEXUS** we strive to deliver bespoke financial solutions to meet the needs of our customers, whether individual, family or commercial.

We do this on the basis of *uberrimae fides* based on strong, lasting personal relationships with a high net worth focus.

With a well developed life insurance pedigree, **NEXUS** develop its composite insurance business and financial management capacity in its existing markets and beyond.



In order to identify what the client **needs**, a fact-finding process would need to be conducted. Good fact-finding must capture the relevant information to enable the adviser to **quantify the total amount of each need**, the **provision that already exist** to meet the need and the **shortfall amount** which still has to be provided.

Another important fact-finding objective is to identify the client's available contribution to invest, also known as the client's **affordability**. This information is derived from a detailed analysis of the client's income (from all sources) and of the outgoing on which it is spent. Problems arise when client gives a vague or general response, however, an adviser has to know to phrase questions to obtain the necessary information. You can estimate the client's monthly rent based on the area where he stays, the number of rooms in his villa/flat. Is the client married and has kids in school? Which school?

With your observations, you will be able to provide a ballpark figure of the client's financial standing, or you may ask the client a leading question to confirm your observation. This needs to be in the Fact Find for the client to sign and approve. At Nexus, we have set the affordability guideline at 35% of the client's net retained annual salary plus bonus.

Example

Adviser: This is a nice place Mr. X, how much does it cost you to rent this place?

Client: It's a bit pricey because of the location, but its worth the convenience.

Adviser: It's also very spacious, is it 2 or 3 bedrooms?

Client: 3 bedrooms

Adviser: I have a friend staying nearby, he pays around AED 120,000 for his 1-bedroom flat, I guess this is around AED 280,000 to AED 300,000 per year. Am I correct?

Client: Yes, approximately. I can only afford up to AED 300,000 per year.

From a good fact-finding interview, a consultant will be able to assess the client's current financial standing. Any suspicions on the client's origin of wealth may be raised at this stage. **Ask yourself: Is your client earning so much more than an average person working in the same profession? Where is he getting that much money from?**



Affordability calculation (*applicable for regular premium policies only*):

Total Cumulative Premium Across all In Force and Paid up Policies
Net Retained Annual Salary and Bonus

$\times 100 =$ Affordability %

Please note that moving forward, Nexus' Affordability % will be based on the below income bracket:

If Annual Income is \leq USD 66,000, affordability % should not be more than 20% of the net retained income
If Annual Income is \geq USD 66,001, affordability % should not be more than 30% of the net retained income

As mentioned earlier, it is vital that the correct affordability is determined to make sure that the client can comfortably contribute until the **end of the term**. Most of our clients invest in medium to long term insurance policies, sound financial planning need to consider the future changes in the client's financial situation to avoid lapse of the policy. Savings and some insurance products have the facility to suspend contributions based on its respective terms and conditions, however, the client is expected to fund the policy until maturity or until completion of the premium term.

Nexus will never support a sale based on the premise that the client will only contribute to complete the lock-in period.



Once all the relevant information have been gathered, the adviser must be able to recommend an appropriate product based entirely on the client's needs. The recommendation is to be presented clearly to the client stating why the product is the most suitable for him. At this stage, the product key features should be explained and what advantages/disadvantages the product may have for the client.

What should an adviser do if a client accepts some, but not all, of his recommendations?

In such circumstances, the adviser is in a difficult dilemma. The adviser is unable to change the professional advice which is based on sound need analysis. On the other hand, the client has the right to ignore advice and invest money in a way the client pleases. The professional way to proceed is to re-state the advice given and reason for it. The adviser should also explain the reasons why the client's own instructions may not be in his best interest. In the event that the client still wishes to act against the adviser's advice, the adviser should express readiness to carry out the client's instructions. However, it should be made clear that the transaction is not recommended by the adviser. The adviser's recommendations should be recorded in the fact-find and signed by all parties. In no way you should encourage an "execution-only" transaction just to skip the fact finding interviews.



CODE OF ETHICS GUIDELINES

Ethical behavior is crucial to preserving not only the trust on which insurance transactions are based, but also the public's trust in our industry as a whole.

Nexus Group is committed to setting, maintaining and supporting the highest professional and ethical standards in its insurance activities. In order to uphold these standards, Nexus requires all members to adhere to its Code of Ethics.

All Nexus members are required to:

- **Comply with the Code and all relevant laws and regulations**
- **Act with the highest ethical standards and integrity**
- **Act in the best interest of the client**
- **Provide a high standard of service**
- **Treat people fairly regardless of age, gender, race and religion**

The review and analysis we conduct are not related to just the application at hand or as demanded by individuals. We conduct a thorough investigation across the client's portfolio to mitigate any deceitful activity.



Our Team's main goal is to make sure that no client is mis-led in any way while taking out the policy and during the life of the policy. For this reason, our guidelines related to Replacement, Affordability, Decrement after completion of ICP and Disclosure are more stringent than ever.

Our Rationale

A low earning client has low spending capacity. Applying the same affordability threshold would leave a low-earner much lesser spending capacity than an average or high income-earner. Due to this reason, the affordability guideline have been changed based on the client's regular income level.

Illustration:

Client A is earning USD 2,500 per month. He wishes to set up a protection policy and based on your fact-finding interview, Client A has approximately USD 1,300 left every month after expenses. In line with the old guideline, you may have recommend a premium level equivalent to 35% of his gross income of USD 2,500 per month, leaving him with USD 425 in his pocket for other expenses.

It is, therefore, critical that affordability is calculated on disposable income, that is, net income minus expenses.

In this example, the client's affordability would be 20% of USD 1,300 = USD 260 per month, leaving him with USD 1,040 per month.



NON-DISCLOSURE, by the client or the consultant, has far more implications than we would normally consider.

A client who did not disclose his previous illness or existing ailments, no matter how immaterial it may appear, can lead to providers declining his claim.

A consultant, who explains how the policy can substantially increase its value, but omits to explain the implications of charges on the policy value, has committed mis-sale and is subject to disciplinary measure including loss of commission.

During the point of sale for example, it is not enough that a client understands what lock-in period means and his/her restrictions while the policy is within the lock-in period. To avoid mis-sale, the consultant must also explain the implications involved in surrendering the policy post lock-in, or the consequences of stopping premium after lock-in.

To illustrate, A Client X wishes to set-up a savings policy. He is very eager to save for his dream house and is planning to start its construction in 3 years. Client X informed his consultant that he plans to stay as an overseas worker as long as he can and does not mind taking a 20-year policy.

The consultant then recommended a 20-year policy with premium of USD 500 per month, which the client is very comfortable with. The client is happy with the growth potential of the product and signed the relevant documents within a week. The consultant explained to Client X that he would not be able to decrease his contributions or partially withdraw his investment within the first 18 months of the policy. He also reminded the client not to skip any payment within this period, otherwise the policy will lapse. The consultant added that the client may suspend the contributions after 18 months and can reinstate later. However, among others, he omitted to inform the client that the partial surrender value may be nil or minimal after lock-in but will grow steadily over the years to maturity.

Three years have passed and the client, in pursuit of building his dream house, requested for a partial surrender. Unfortunately, the client paid only 20 months worth of premiums, although the policy value has increased due to the market performance of the underlying funds, he was not able to receive an adequate amount to start the construction of his house as the funds have not had the time to appreciate to have the value required.



The consultant is well aware that there is very little hope that the plan would appreciate sufficiently in 3 years to enable the client to build his house. He therefore, has the responsibility to advise the client accordingly. Instead, he did not and has committed serious mis-sale and a great dis-service to the customer.

CHURNING AND REPLACEMENT

Exposing the client's money to repeated charges or advising the client to decrease his contributions to set up another similar policy constitute unethical practice as commissions are generated repeatedly on the same funds to benefit the consultant.

Persuading a client to surrender his policy pre-maturely in order to afford a new similar policy does not benefit anyone but the consultant. The client will have to pay the surrender penalty charges and again a new set of charges in order to have what he already has.

Churning and replacement do not only happen on investment policies. There are cases where a client would decrease his existing life cover and then take an "enhanced" policy later.



Illustration

Mr. R has been investing for the last 12 years. Three years more and his retirement policy is going to mature. He has not been paying too much attention on its value but based on the last statement he received, he is happy with the returns. One day, Mr. R received a call from his recruitment agent. He was offered a new job which he has accepted. During the last week of his notice period, the HR department informed him that approximately USD 80,000 will be his end of service pay. Mr. R contacted his financial consultant to seek advice where to park his money. He wants to keep it aside and has no plans in spending it until retirement.

On the other side of the fence, Consultant K was ecstatic about the news. This could be the easiest deal in his entire career. However, he would need a slightly higher premium so that he can qualify in the ongoing incentive program. He knows that Mr. R has an existing policy which can be surrendered, its going to mature in a few years in any case.

Consultant K, provided Mr. R an elaborate presentation to convince him to prematurely surrender his policy and put all his funds in one lump sum investment. Not knowing the consultants hidden agenda and blinded by the promising scheme, Mr. R agreed.

All the above activities constitute dishonesty, mis-sale and in some cases outright fraud and are subject to legal actions in most jurisdictions.



Case Studies

THE CASE OF THE ROOKIE AND THE PRO

Your prospect has been open and honest about seeking proposals from several agents in addition to yours. You arrive for your appointment confident that you have done the job right and have a great deal for the protection cover he needs. Following your presentation, he tells you he has received a significantly lower quote yet providing far better coverage. You ask if you might see it, to get a better understanding of what you can do to improve your services in the future. Seeing no reason to object, the prospect hands you the winning proposal, which you are amazed to find is a proposal written by one of your colleagues.

You realize part of the competitive price results from the exaggerated growth rate illustrated. This also makes the policy look highly lucrative despite the insurance component of the policy.

Your colleague who presented the proposal is new to the industry, and you can easily understand how he made such a mistake. The package clearly appears to be a great deal for the prospect, who is not aware of the “technicalities” of the plan.

What do you do?

It would be ethically wrong and needless to say, unprofessional, to advise the client that the other agent is new and that he had bloated the policy values, just to win the sale.

At Nexus, we operate in a culture of professionalism, honesty, integrity and compliance. In such scenarios, we expect that the issue is tackled within our organization, in this case, within the Sales Team. The rookie consultant is expected to revise his proposal and re-present it to the client.

Who wins the sale should come solely from the client’s decision without anyone tarnishing each other’s reputation or disturbing the client.



THE CASE OF MIS-SELLING

Mr. X contacted a local financial adviser to get a policy that would cater to his investment requirements. Mr. X is in his early 40's and has saved USD 300,000 in the bank. He would like to grow the funds and keep it safe until he retires. He is clear in his intention that he wants the money locked in the policy so that he would not be tempted to spend it before retirement. He also made it clear that this is his life's savings and that his regular income is the same as an average 40 year old man. He would probably not be able to save another USD 300,000 again due to the changes in his personal circumstances.

The consultant upon learning his need recommended a regular premium savings policy for 25 years. The client was made aware that the policy will mature when he reaches 65 years of age. The premium was at USD 150,000 per year. With his savings, he can easily fund the policy for 2 years, more than enough to complete the lock-in period. Even at the most conservative estimate, the investment will have an acceptable maturity value by the end of 25 years. The client accepted the advise and agreed to set up the policy. However, the consultant failed to inform the client a critical information about the policy. Three-fourths of his initial investment is literally locked in the policy until maturity.

A few years have passed and the client is in need of a substantial amount for his business that he has set up. He is aware that his investment had grown considerably due to the excellent market conditions and he is very pleased with the policy value every time he receives a policy statement. He sent a partial withdrawal request directly to the provider as it seems he cannot get hold of his financial consultant. To his dismay, his request was declined as the amount he requested is more than the amount permitted for withdrawal. Only then did he realized how the policy works and the policy restrictions he is bound to.

The client took the matters to court and filed a lawsuit against the adviser, the brokerage agency and the product provider. The court found the adviser and the brokerage agency guilty of misselling. The product provider was acquitted as they were not involved in the sales process however, they were instructed to fully cooperate in providing the appropriate corrective measures related to the client's investments.

The brokerage agency paid a hefty fine as a result of this case. The client was offered to restructure his investment to a lump sum policy. Part of the compensation was that he will not suffer any loss during the policy restructure. Due to this, the appropriate commissions paid initially would need to be clawed-back in which the consultant has to bear. In addition, the brokerage agency spent a huge amount on advertising and promotions to regain the public's trust.



THE CASE OF THE HIGH-NET WORTH CLIENT

A high-premium application is almost ready for submission, just few days before the monthly cut-off. This case would solidify Agent Y's position in the top tier level. All he has to do now is complete the relevant documents and submit the application to the Admin Team for processing. There is just a slight doubt bugging Agent Y, the client was not able to provide clear picture of where he is getting his money from. Agent Y knows that the client has several small businesses in town and he can well fund the investment he proposed. However, the client also owns several luxury cars and 3 huge villas in the capital. Agent Y also heard that his new client just purchased a yacht and a beach house in the nearby town.

Few months earlier, the client's family business was under scrutiny for alleged drug trafficking. Agent Y asked him about his involvement in this although he knows the client's distant cousin is the one operating the said business. However, the client has not given him a straight answer. The client's usual comment was "You should not worry about gossips, if I was involved I should be in jail by now right? You, young man, should focus on how you can grow my money."

Agent Y was on the moon when the application was signed yesterday evening. With the expected commissions, he can finally take his family to the dream vacation he has long promised his wife. He won't have to worry about his kids school fees for this year and he can maybe use some of the money left for a down payment to a new car. He has to make sure nothing goes wrong with this application.

Whilst reviewing the client's portfolio, Agent Y had omitted to consider one small investment taken a few years back through one of his colleagues who had now left the company. Because of this, the risk threshold was reached and he would need more documents from the client. He knows the client would not mind to change the premium level to a few hundred dollars lower. He can easily say that a top up is possible later on. Agent Y is now in a big dilemma. If he can just decrease the premium with few hundred dollars, then the application will go smoothly. But still, that question keeps popping up, "where did he get all his money?" This is now his opportunity to get an answer as the client would be required to prove his source of income.

"Well the client said that he is not involved in his cousins business, so I should not worry about this." Agent Y thought. "It feels wrong to amend the application just to avoid further requirements. I can just ask him for a copy of his bank statement then I can submit the application, I still have time before the deadline." With this in mind, Agent Y went back to the client and explained the situation. He requested the relevant bank statements explaining that it is a regulatory requirement. Upon hearing this, the client got so furious and told Agent Y that it is his responsibility to find a way to invest the money. The client even told him, that if he cannot even get this case through in the initial stages then there's no point doing business with him. Agent Y was fired right there and then. He hasn't even left the room when the client started calling another competitor agency.



Agent Y was devastated beyond relief. All his plans are down the drain. On top of this, how will he explain this situation to his manager. How will he explain to his wife that the vacation would need to be cancelled. It may take years before he find another high net worth client.

The next few months were not easy for Agent Y. At the back of his mind, he always think how his life would have changed if the “big” application went through. Never the less, Agent Y carried on.

Before the end of the year, Interpol has uncovered the drug trafficking activities in their area. One of the convicted members of the group is Agent Y’s former client. Apparently, Agent Y’s client was the one laundering the drug money and paying bribes to the local authorities. The widespread investigation has resulted in several arrests including the client’s financial consultant who aided him in investing small portions of the client’s wealth to several financial institutions. The layering of the funds was so complex that a separate team of money laundering experts were commissioned to trace the funds.

With this news unfolding, Agent Y took a sigh of relief. It could easily have been him in that consultant’s position. If the initial application had gone through, he would be obliged to continue assisting the client in his subsequent investments and it would have been difficult to back out then.

As mentioned in the previously, at Nexus, we strive to meet our client’s needs and achieve our financial goals, but we do not engage in transactions that could be illegal or compromise our legal status and ethical standards.



IT'S ASSESSMENT TIME

