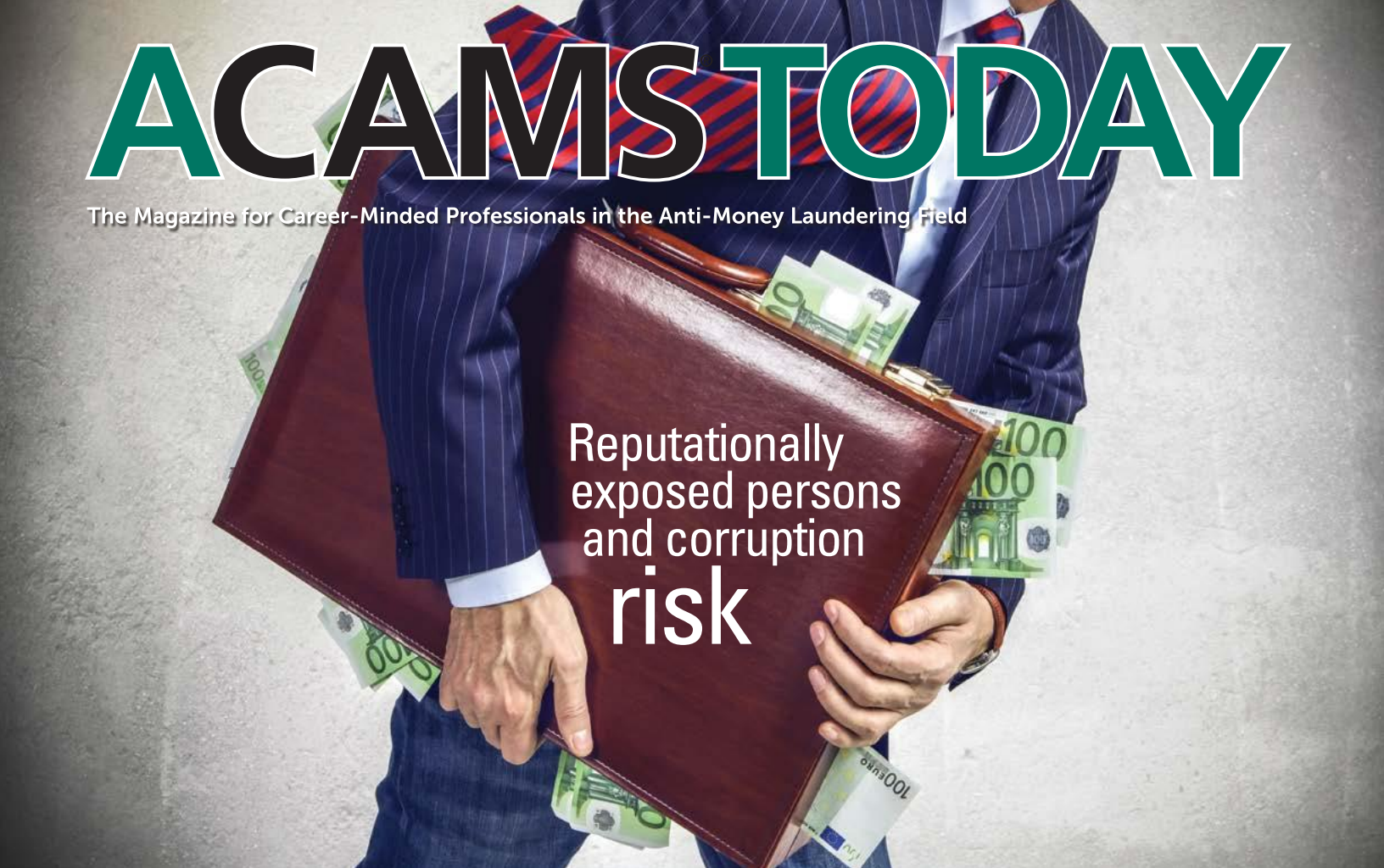


ACAMSTODAY

The Magazine for Career-Minded Professionals in the Anti-Money Laundering Field



Reputationally exposed persons and corruption risk

Most institutions are familiar with politically exposed persons (PEPs), but fewer organizations have formalized policies around a broader risk category of reputationally exposed persons (REPs). REPs may have connections to the political world, government contracts or commercial activity and may be at risk for corruption or money laundering activity. Reputational exposure could take a variety of forms, such as a senior leadership role in a large corporation, exposure in the news for ongoing investigations, business or personal activities, or in high-risk businesses such as mining or defense.

There is no implication that a REP is necessarily guilty of a crime or that their accounts should be closed. REP status simply indicates that an individual or organization poses an increased risk compared to

non-REPs. These parties have greater opportunities to engage in money laundering or corruption, which often go hand in hand. For example, the head of an international mining company has more opportunity for illicit activity than the average account holder. While this individual might not come up as a PEP in a typical customer due diligence search, they may have access to PEPs or other high-risk individuals through second or third-level connections and opportunities to engage in corruption.

REPs and corruption

The case of retired Army Colonel Joseph Baptiste,¹ who was charged with corruption and money laundering, is a good example. While he was not directly politically exposed, he was connected to government agents and allegedly accepted bribes to

facilitate infrastructure project contracts in Haiti totaling \$84 million. Although financial institutions do not necessarily have an obligation to identify corruption, corruption tends to lead to money laundering, which banks do have an obligation to identify and report. Based on data found in World-Check's reference database, Baptiste would be considered a REP and could have been monitored more carefully for the money laundering associated with the corruption, potentially identifying the illegal activities much sooner.

Similarly, in a December 2017 case, an Embraer executive pleaded guilty to paying bribes to government officials in Saudi Arabia to secure the sale of jets to the national oil company.² As with the previous example, there is no indication that this executive would be classified as a PEP,

¹ "Retired U.S. Army Colonel Charged With Conspiring to Bribe Senior Officials of the Republic of Haiti, Department of Justice," August 29, 2017, <https://www.justice.gov/opa/pr/retired-us-army-colonel-charged-conspiring-bribe-senior-officials-republic-haiti>

² "Former Embraer Sales Executive Pleads Guilty to Foreign Bribery and Related Charges," Department of Justice, December 21, 2017, <https://www.justice.gov/opa/pr/former-embraer-sales-executive-pleads-guilty-foreign-bribery-and-related-charges>

but as an executive with decision-making authority for an international corporation, he is likely to be a REP. As with many corruption cases, the executive was charged with both violations of the Foreign Corrupt Practices Act, as well as with money laundering.

While most of us think of corruption as primarily impacting the hundreds of millions who live in the underdeveloped and developing parts of the globe, it really has no geographic, economic or professional boundaries. The ongoing news of corruption coming out of the Fédération Internationale de Football Association³ (FIFA), the international governing body for world football, sent shock waves throughout the professional sports world. There have been numerous instances of alleged corruption and convictions in the world of professional soccer. In these cases, officials within FIFA are accused of accepting kickbacks from marketing companies in exchange for the award of commercial rights. The REPs involved included 28 soccer officials, 11 business executives and two corporations that engaged in corruption and then laundered those illicit funds.

While corruption is on the rise grabbing news headlines on a daily basis, other sources, such as the Paradise Papers and the Financial Crimes Enforcement Network (FinCEN) warnings regarding Venezuela bribe money, can provide nuggets of information that may be indicators of future risk. Issued on September 20, 2017, the FinCEN "Advisory on Widespread Public Corruption in Venezuela," cautions institutions that "all Venezuelan government agencies and bodies, including state-owned enterprises (SOEs), appear vulnerable to public corruption and money laundering."⁴ Institutions are further warned of the high risk of corruption posed by Venezuelan government officials and employees at all levels, including those managing or working at Venezuelan SOEs. By understanding that a customer could be involved in high-risk activities, that entity can be monitored with

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more scrutiny and acted upon according to actual activity. In the example of Venezuelan bribe money, accurately identifying the individuals as a PEP or a REP and understanding the patterns of activity gives institutions the best chance at effectively identifying money laundering associated with corruption.

Managing REPs efficiently

The risk of corruption exposure does not stop with the rich and famous or positions of power. While incidents involving less visual individuals may not rise to the level of a major corruption scandal, there may be other red flags, such as unusual cash transactions that can indicate that the source of funds is derived from corrupt or illegal practices.

Organizations should develop a policy for handling REPs and incorporate it into their know your customer/customer due diligence (KYC/CDD) program. This should include screening at account opening and ongoing monitoring of the portfolio against REP databases. In most cases, these entities will not engage in corruption or money laundering, but the risk is there. An account holder could easily become a REP over time due to prominent public actions or negative news, and may presage suspect behavior.

Identifying REPs can be challenging. If there are too many false positives, the cost of identifying and mitigating the risk may become onerous. It is imperative for organizations to strike a balance between managing cost and

managing risk. This is why it is so important to have a targeted yet flexible system for identifying and managing these risks. One way of doing this is to become more nuanced in the real exposure a client presents to the institution. This means not just identifying that a risk exists, but also quantifying how serious that risk is to the institution, which can drive further decisions.

While institutions may not always have a regulatory requirement to identify REPs the same way they do with PEPs, there are certainly broader business reasons to do so. As noted, REP status does not imply that a business relationship should be severed, but it is in the best interest of the institution to monitor those customers with greater scrutiny than the general portfolio. The reason is simple: Institutions may find themselves exposed to their own reputational damage if it is found they knew or should have known the institution was used for money laundering or corrupt actions. Protecting the institution is a powerful reason to take REPs seriously.

Conclusion

With all the various types of REPs and connections between them, no institution can manually identify, link and screen all these individuals and relationships. Institutions need automated solutions to filter out the noise and zero in on specific high-risk individuals and companies. This is a process that needs to be continuously run as news and information is added to the database and individuals' REP status changes over time. Proven solutions will accurately identify high-risk entities, sort them based on risk, minimize false positives and provide continuous monitoring. **TA**

Carol Stabile, CAMS, chief sales and marketing officer, Safe Banking Systems LLC, Mineola, NY, USA, carol.stabile@safe-banking.com

³ Rebecca R. Ruiz, "Two Top Soccer Officials Found Guilty in FIFA Case," *New York Times*, December 22, 2017, <https://www.nytimes.com/2017/12/22/sports/soccer/fifa-trial.html>

⁴ "Advisory on Widespread Public Corruption in Venezuela," FinCEN, September 20, 2017, <https://www.fincen.gov/sites/default/files/advisory/2017-09-20/FinCEN%20Advisory%20FIN-2017-A006-508%20Compliant.pdf>