* **Who is a Politically Exposed Person?**

A “**Politically Exposed Person**” or “**PEP**” as defined by the Financial Action Task Force (FATF) is an individual who is or has been entrusted with a prominent public function

Due to their position or influence, they may be susceptible to money laundering and related predicate offences. As a result, they are designated as high risk for risk-based monitoring by financial institutions. PEPs include

* Heads of State or Governments
* State Governors
* Local Government Chairmen
* Senior politicians
* Senior Government officials
* Judicial or Military officers
* Senior executives of State-owned Corporations
* Important Party officials
* Family members or close associates of PEPs
* Members of royal families etc
* **Types of Politically Exposed Persons (PEPs):**

1. **Domestic PEPS**: These are individuals that hold a prominent public position or function domestically. This includes the Head of State or Government, Senior executives and financial regulators.
2. **Foreign PEPs:** Individuals that hold prominent public position or function within a foreign country. These include the Head of State or Government, Senior executives and financial regulators of foreign countries.
3. **International PEPs**: Individuals that holds a prominent public position or function by an international organization. This can include members of the Board in an organization and Senior Management positions.
4. **Family Members:** Individuals that are related to PEPs are also classified as a PEPs.
5. **Close Associates:** an individual who has close relations with a PEP whether it is socially or professionally.

If an individual is identified as a PEP, this does not mean that they are involved in criminal activity, but it means that precautions may need to be taken as they are of higher risk to financial institutions and DNFBPs because their positions may be abused.

Pursuant to Recommendation 12 of FATF and provisions of Regulation 18 (3-7) of the CBN AML/CFT Regulation 2013 (as amended), Financial Institutions shall:

(3) in addition to performing Customer Due Diligence (CDD) measures, put appropriate risk management system to determine whether a potential or existing customer or the beneficial owner is a PEP

(4) obtain senior management approval before they establish business relationship with a PEP and shall render monthly returns on all transactions with PEPs to the CBN and the NFIU

(5) where a customer has been accepted or has an ongoing business relationship with the financial institution and the customer or the beneficial owner is subsequently found to be or becomes a PEP, the financial institution shall obtain senior management approval to continue the business relationship

(6) take reasonable measures to establish the source of wealth and the source of funds of customers and their beneficial owners identified as PEPs

(7) conduct enhanced and ongoing monitoring of that relationship and in the event of any transaction that is abnormal, a financial institution shall flag the account and report the transaction immediately to the NFIU as a suspicious transaction

* **Risk Assessment of PEPs**

In managing the risk posed by PEPs, identification of PEPs is one of the most important steps that determine other risk management practices, by assessing the risk and implementation of a risk-based approach. Other risk management practices of risk-rating, continuous monitoring and ongoing due diligence are dependent upon successful identification of PEPs.

Identification of PEPs may be difficult because:

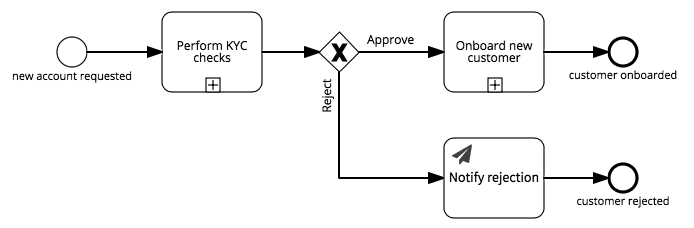
1. Some PEPs, especially close associates, attempt to shield their identity
2. Other behavioral isndicators to conceal identity include use of corporate vehicles, uncomfortable / unwilling to provide information, avoiding explanations or providing incomplete information, etc.

* **PEP Approval Process flow**

In line with the Bank’s Anti-Money Laundering policy and other relevant provisions of the CBN regulation and guideline, all identified PEPs at the onboarding stage whether detected by the Account / Relationship Officers or following compliance review (by Compliance Officers), there should be a detailed review of the customer’s profile and transactions, before escalation to the top management (EXCO) for:

1. careful appraisal of their inherent risk vis-à-vis the risk tolerance of the Bank
2. This is based on the review of the source of funds / source of wealth, net-worth etc
3. Approval of commencement and continuation of business relationship with the PEP is based on the risk appetite of the bank as it relates to the controls in place to mitigate risks
4. Approval can be declined on the basis of negative media report, court cases, jail terms, bankruptcy, reputational risks etc

(see process flow)



* **Approved Treatment of PEPs**

The primary key for management of PEPs is their **identification** before establishing a business relationship as well as **ongoing monitoring** of existing customers to ensure funds managed on their behalf is not derived from a corrupt source.

According to the Wolfsberg Group, a wide range of controls may be considered for the identification and management of PEP relationships as follows:

1. **On-boarding new PEP Customers / Clients: -** While low and medium risk customers / client relationships should be subject to Customer Due Diligence (simple and standard) procedures during the approval process, Politically Exposed Persons (PEPs) and other high risk customers e.g; Designated Non-Financial Business and Professionals (DNFBPs) must be escalated for by Senior Management approval (in compliance with the above stated CBN regulations).
2. **Identification of existing clients** - When an institution becomes aware that an existing customer or client has become a PEP, it should apply appropriate Enhanced Due Diligence procedures and controls and notify senior management.
3. **Enhanced Due Diligence** - Once identified and depending on the product or service sought, additional research and analysis may be appropriate including validation of information provided for a number of factors including an understanding of the individual’s source of funds and wealth.
4. **Enhanced Monitoring** – Using robust Transaction monitoring system, PEP accounts or accounts having PEP relationship should be subject to continuous and on-going enhanced monitoring to detect unusual and potentially suspicious activity.

Monitoring of PEPs and their transactions also facilitate identification of business associates that are often counter parties to transactions that emanate or terminate with PEPs, for proper profiling as PEP associates or otherwise. Identified PEP associates are subject to the same PEP approval process, risk rating, conduct of EDD, establishment of source of wealth/funding, and ongoing monitoring.

1. **Review existing PEP clients** - Such relationships should be subject to periodic review to ensure that due diligence information remains current, and the risk assessment and associated controls remain appropriate. Senior management should approve these reviews.

*Below are the step-by-step guidelines for managing Politically Exposed Persons (PEPs) in TAJBank Limited in compliance with regulatory requirements*

* Seek Senior Management approval ***before*** establishing and ***continuing*** business relationship with PEP
* Categorization of PEP Customer as High Risk in line with the provisions of Central Bank of Nigeria guidelines
* Capturing of PEP customer on the Core Banking Solution (Amplitude), using the approved code
* Conduct proper PEP screening using a robust commercial database e.g World- Compliance, World-PEP etc to confirm and document the PEP status
* Ensure Proper record keeping of PEP Account Opening Package (AOP)
* Rendition of monthly reporting of PEP transactions to the CBN and the NFIU
* Quarterly report on PEPs to the Board to evaluate the Risk Appetite of continuing to maintain business relationship with them or delist same (when the controls of the Bank cannot manage the risk profile of the PEP, Bank may consider closing the account)
* Conduct ongoing monitoring and review of PEP accounts and transactions
* File Suspicious Activities / Transactions Report on PEP accounts and transactions (where they exist to the NFIU)
* Take a risk-based approach to PEPs during KYC / CDD through screenings, adverse media searches, periodic reviews and monitoring of both transactional and non-transactional account activity
* Update PEP register – after a PEP has been established by the relationship officer or compliance department usually at the pre-approval stage, quarterly screening of existing client’s database and sometimes on a case-by-case basis
* Conduct periodic review of PEPs and other high-risk accounts, which can be triggered by:

1. Change of PEP roles
2. Change of PEP’s residency
3. Adverse media report
4. Court orders / Subpoena etc

* Conduct quarterly review of PEPs and other high-risk accounts: this involves review of all PEP and high-risk account opening documentation, for adequacy of documentation. Expired documents, like means of identification etc, are identified. This is in addition to extant internal processes for identification of such documents.