



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

# OSFI AML/ATF Information Session

October 17, 2006



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# Agenda

- **Keynote remarks**
- **Insurance Typologies & Issues**
- **AML Risk Management & Anti-Terrorist Financing**
- **BREAK**
- **Terrorist Listing**
- **Correspondent Banking & Trade Finance**
- **Upper Range and Quality Challenged Practices**





# Keynote Remarks

Frank Swedlove,  
President, FATF (former Assistant Deputy Minister,  
Department of Finance, Government of Canada)





# Money Laundering Typologies & Issues in Life Insurance

Joan Bentley, Director, Compliance

Jean Bratrud, Manager, Compliance

with

Detective Inspector John Ibbotson,

Toronto Integrated Proceeds of Crime Unit,

RCMP



# Topics

- **High Risk for Layering**
- **Harder to Expose**
- **STR Statistics**
- **Past AML Reviews by OSFI**
- **Future AML Reviews by OSFI**
- **Product Vulnerabilities**



# Topics

- **Typologies & Risk Management Issues**
- **Identifying/Monitoring Suspicious Transactions**
- **Product Profiles**
- **Questions & Comments**



# High Risk for Layering

**Money launderers may have two types of intention, which may be served by life insurance:**

- Launder illegal funds**
- Build financial security for themselves & dependents**



# Harder to Expose

- **Complex products**
- **International transactions**
- **Third parties**
- **More sophisticated buyers**





# STR Statistics

From FINTRAC:

- **153 STRs filed since 2002**
- **32 STRs filed in 2005-2006**

**What does this mean?**



# Past AML Reviews by OSFI

- **2003-05 – Pilot phase**
- **Small sample of insurers**
- **Cross-section of industry**
- **Risk management a work in progress**



# Future AML Reviews by OSFI

- **2007 – fuller assessment phase**
- **Larger number of on-site assessments planned**
- **Increased focus on higher risk product areas**
- **Compliance with regulatory requirements & guidelines**



# Product Vulnerabilities

- **Introduction to Detective Inspector John Ibbotson, RCMP**
- **Overview by Detective Inspector Ibbotson**



# **Illegal Funds, Legitimate Purpose**

**Proceeds of career in crime pay 15 years of premiums for long term protection**

**Due diligence defences:**

- Understand applicants' occupations & sources of funds**
- Ensure the story makes sense**



# Multiple Transaction Layers Obscure Source of Funds

**Multiple policies & internal account transfer before early cancellation & cheque from insurer**

## **Due diligence defences:**

- Understand clients' insurance needs & policy activity**
- Question multiple policies/transactions – does it make sense?**



# Multiple Relationships Exploited

**Broker assists premium payment by bank draft, insurer pays full value by cheque on early surrender**

**Due diligence defences:**

- **Know your broker's AML procedures including cash/money order acceptance policies**
- **Broker verification of income & employment**



# Large Cash Premium & Conflicts of Interest

**Broker & company employee keep large cash premium under Compliance Officer's radar**

**Due diligence defences:**

- **Know your broker's AML procedures including cash/money order acceptance policies**
- **Know your employees**
- **Sensitize employees to AML issues**





# Artificial Business Arrangement

**Drug dealers presenting as partners arrange for one to buy insurance on the other one's life to secure repayment of debt**

**Due diligence defences:**

- **Confirm existence & nature of business of entities including partnerships**
- **Understand & verify applicants' occupations & sources of funds**



# Broker Exploits Policy's Early Surrender Feature

Broker takes cash deposit for premium & uses knowledge of insurer's early surrender operations to hide origin of client's funds

**Due diligence defences:**

- Know your brokers
- Do not accept cash in Canada
- Enforce strong controls in cash-based economies



# Identifying & Monitoring Suspicious Transactions

- **Broker/agent administration**
- **Underwriting**
- **Payments processing**
- **Policy administration**
- **Claims**
- **Business acquisition process**



# Product Profiles

**Individual products, all of which are subject to “free look” (except segregated funds):**

- **Universal life**
- **Side accounts for prepaid premiums**
- **Segregated funds**
- **Annuities**
- **Whole life**



# Questions & Comments



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# A Risk-Based Approach to a Sound Anti-Money Laundering and Anti- Terrorist Financing Programme

Keith Martin, Director  
Christine Ring, Manager  
Compliance Division OSFI



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# Topics

## AML / ATF Compliance

- Base Line Requirements and Expectations

## Broader Risk Management Issues

- Risk Based Program
- Risk Based KYC
- Reputation Risk
- Corporate Governance



# AML/ATF Compliance

- **Why AML/ATF Compliance is different**
- **Misconceptions**





# AML/ATF - A National Imperative

**June 2005:**

**Department of Finance**

**Consultation Paper** *Enhancing  
Canada's Anti-Money Laundering and  
Anti-Terrorist Financing Regime*

- **Financial Institutions – front line defence against ML and TF**



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# Dispelling the Myths

- **Penalties**
- **Onerous management controls**
- **Loss of reputation and loss of market share**
- **Opportunity to expand relationship**



# Base Line AML/ATF Requirements

- **Enterprise-wide AML/ATF Policies and Standards**
- **Chief Anti-Money Laundering Officer (CAMLO)**
- **Board and Senior Management Oversight**



# **Base Line AML/ATF Requirements (cont'd.)**

- **Customer Due Diligence Policies and Procedures**
- **Annual Self-Assessment Program**
- **Independent Procedures Testing and Reporting**
- **Continual Terrorist Name Searches**



# **Base Line AML/ATF Requirements (cont'd.)**

- **Identification and Reporting of Suspicious Transactions and Freezing of Terrorist Property**
- **Identification and Reporting of LCTs/ International EFTs**
- **Records Retention**
- **Ongoing Staff Training**



# **Beyond the Basics**

## **- A risk based approach**

- **Board and Senior Management**
- **Internal Audit**
- **Customer Due Diligence**



# Upper Range Practices – Board and Senior Management

## CAMLO:

- Senior level position
- Direct access to Board and Senior Management
- Fully engaged in all aspects of AML Program



# **CAMLO – Upper Range Practices**

- **Ensures AML policies are enterprise wide**
- **Self-assessment**
- **Reports directly to the Board**
- **Specialized AML/ATF knowledge**





# Upper Range Practices- CAMLO's role in business units

- Fully engaged
- Product and service specific policies reflect enterprise-wide standards
- Ensures product/LOB training
- Ultimate approval
- Ultimate responsibility



# Internal Audit

- **Summarizes AML results for all LOBs**
- **Single report to the Board**
- **Provides a conclusion on the effectiveness of the Program**



# Upper Range Practices – Self-Assessment

- **Self-assessments prepared by business units**
- **CAMLO participation in design of self-assessment**
- **IA reviews self-assessments – results included in report to Board**



# Customer Due Diligence

- **Enterprise-wide policies and procedures**
- **Enterprise-wide standards for acceptable documentation**
- **Enterprise-wide standards for enhanced due diligence**
- **CAMLO approval of exceptions**



# Enhanced due diligence in business units

- Risk assessment from an AML perspective
- Identify higher risks:
  - Customers
  - Countries
  - Products
- Increased monitoring & surveillance



# EDD – Business Units

- **Correspondent Banking & Trade Finance**
- **Private Banking**
- **Credit cards and stored value cards**
- **White label programs**



# General Observations

- **Looking at AML/ATF as only a compliance exercise to satisfy regulator instead of protecting the FRFI's reputation and franchise**
- **Lack of “buy-in” by lines of business**



# Governance

- **Inadequate LCM systems**
- **Lack of independence of internal audit**
- **Lack of understanding of AML/ATF legislative compliance**
- **Board disinterest or lack of awareness**





# **A Risk based approach involves:**

- **Base line due diligence**
- **Enhanced due diligence commensurate with AML/ATF Risk**
- **Board, Senior Management and Business Lines fully engaged**



# Questions & Comments



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**BREAK**

**...back in 20 minutes**

**PAUSE**

**...nous reprendrons dans  
20 minutes.**





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# Terrorist Listing, Reporting and Related Issues

Presented by Keith Martin  
Director, Compliance, Compliance Division  
OSFI



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# Agenda

- **Composition of OSFI Consolidated List**
- **Apparent “Matches”**
- **Filing of Terrorist Property Reports**
- **OSFI Form 525**



# Agenda

- **Other Advisories – sanctions, FATF**
- **Ongoing Management of Terrorist Property**
- **Other**
- **Contact Information**



# Canadian Legislation and Regulations

- *Criminal Code*
- *Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism (RIUNRST)*
- *United Nations Al-Qaida and Taliban Regulations (UNAQTR)*



# How the names get on the OSFI List

- 1) *Criminal Code* Listing
  - **Minister of Public Safety and Emergency Preparedness Canada (PSEPC)**
- 2) United Nations Regulations (RIUNRST and UNAQTR)
  - **Minister of Foreign Affairs Canada**
  - **United Nations Security Council Resolutions.**





# Partial or Full Matches

- **What information do you already have in your records?**
- **Verify information against source lists**
- **Contact individual for more information**



# Contact with RCMP

## IMPORTANT!

**Before reporting to, or seeking further assistance from, the RCMP, the FI must:**

- **Do its own internal analysis**
- **Must be able to provide at a minimum, the name and date of birth**



# Reporting and Freezing

- **File with FINTRAC, RCMP and CSIS**

**Please...do not contact OSFI to ask if the name is a match or if filing should be made**



# OSFI Form 525

- **Must be completed and filed by 15<sup>th</sup> of month**
- **Short and long form**
- **Fax or courier**
- **Aggregate information only**
- **No personal, account or policy information**
- **All amounts in Canadian dollars**



# OSFI Form 525 (continued)

- **Constant exchange rates for foreign currency denominated property**
- **All FRFIs file.**
- **Joint report may be filed**
- **All provinces file aggregate reports**
- **“Reported but not frozen”?**



# Other Advisories

- **UN Sanctions (e.g. Sudan, Liberia)**
- **Sanctions not included in OSFI consolidated list**
- **FATF Actions**



# Ongoing Management of Frozen Property

- **No service charges**
- **No interest**
- **Securities – entitlements etc. cannot be credited to an account in the name of the designated person or entity**



# Who to Contact

## Issues relating to:

- **OSFI Consolidated List**
- **525 Reporting**
- **Application of B-8**
- **Guidance in “special situations”**

**Keith Martin**

**(416) 952-0577**

**[keith.martin@osfi-bsif.gc.ca](mailto:keith.martin@osfi-bsif.gc.ca)**



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# RCMP Anti-Terrorist Team Contacts

- Sergeant Christian Gauthier – (613) 993-9527
- Sergeant Reg Labonté – (613) 993-9453
- Sergeant Brian Kelly – (613) 949-4595

## **IMPORTANT!**

**Before reporting to, or seeking further assistance from, the RCMP, the FI must have done its own internal analysis AND**

**Must be able to provide at a minimum, the name and date of birth of the individual who is being reported or for whom you are seeking further assistance**



# More contacts

- **Property & Casualty Companies – including title insurance**

**Christine Ring, Manager Compliance**

**(416) 973-0608**

**[christine.ring@osfi-bsif.gc.ca](mailto:christine.ring@osfi-bsif.gc.ca)**

**With copy to Keith Martin**



# OSFI Consolidated List

- [http://www.osfi-bsif.gc.ca/osfi/index\\_e.aspx?DetailID=525](http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=525)

**For download:** (*most recent version, as of August 25, 2006*)

- Names of entities (other than individuals) ([Excel format](#) or [.txt format](#))
- Names of individuals ([Excel format](#) or [.txt format](#))
- **For print:** (*most recent version, as of April 26, 2006*)
- Names of entities (other than individuals) ([Excel format](#))
- Names of individuals ([Excel format](#))



# Other websites

- **PSEPC List under *Criminal Code***

<http://www.psepc-sppcc.gc.ca/prg/ns/le/cle-en.asp>

- **UNSTR**

<http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>

- **UN Press releases**

<http://www.un.org/News/Press/>



# More sites

- **Foreign Affairs**

[http://www.dfait-maeci.gc.ca/internationalcrime/financing\\_terrorism-en.asp](http://www.dfait-maeci.gc.ca/internationalcrime/financing_terrorism-en.asp)

- Phonebusters

- [http://www.phonebusters.com/english/recognizeit\\_identitythe.html](http://www.phonebusters.com/english/recognizeit_identitythe.html)



# Some sample questions

- **When is OSFI going to add the names of the alleged terrorists arrested in Toronto?**
- **Why doesn't OSFI show more information?**
- **Is "ABC" on the terrorist list?**
- **Why aren't the names of people designated under the Sudan (and other sanction lists) on the OSFI web site?**



# More questions...

- I know a situation where I'm sure he/she is laundering money – who do I tell?
- I'm told I can't ask for personal information (date of birth, employment, etc.) under privacy legislation
- We're a P&C company and don't collect dates of birth etc., so how can we provide information to the RCMP?



# Questions & Comments



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# Money Laundering and Terrorist Financing Programmes in Correspondent Banking & Trade Finance

Presented by Jean Bratrud, Manager Compliance and  
Keith Martin, Director, Compliance, Compliance Division  
OSFI



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# Correspondent Banking

- **Traditional services**
  - **Letters of credit**
  - **International Payments**
  - **Vostro accounts**
  - **Nostro accounts**
  - **PUPIDs**



# High Risk Activities

- **FATF and Basel Committee:**
  - **Shell banks**
  - **``Payable through``  
accounts**
- **White label products and  
services**



# High Risk Activities

- **White label lock boxes**
- **Bank note programmes**
- **Drafts**
- **PUPIDs**



# Recommended Due Diligence

- **Country AML risk assessment**
- **Ownership and control**
- **Directors**
- **Clients**
- **Services**
- **Regulatory regime**



# Recommended Due Diligence

- **Correspondent's KYC practices**
- **Screening against terrorist lists**
- **Transaction monitoring systems**



# Proposed Regulatory Requirements for Correspondent Banks

Obtain all relevant information on the activities and operations of the respondent bank, including:

- Regulation
- Anti-money laundering and anti-terrorist financing controls and policies



# Proposed Regulatory Requirements for Correspondent Banks

- **Prior senior management approval**
- **Document responsibilities**
- **Correspondent bank's due diligence**
- **Customer identification information for clients using “payable-through accounts.”**





# Current Practices

## Reliance on:

- **3<sup>rd</sup> party information sources i.e. Banker's Almanac, Bankscope, etc.**
- **Regulator's web sites as evidence of good standing**
- **SWIFT BKE instead of signatures**



# Upper Range Practices

## Business line specific:

- Policies
- Procedures
- Training



# Upper Range Practices (cont'd)

- **AML/ATF Country Risk Rating**
- **Preliminary on site visits**
- **Greater scrutiny of smaller FI's**
- **Senior management approval**
- **Ongoing call programme**
- **Annual Reviews**



# Upper Range Practices (cont'd)

- **Key KYC processes documented**
- **Retrospective due diligence on all relationships**
- **Screening against OSFI list**
- **Transaction monitoring and surveillance**
- **Enhanced monitoring and surveillance**



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# Trade Finance

## AML and ATF Programme



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# Trade Finance Letters of Credit

## Sources of Potential AML/ATF Exposure:

- Applicant (Importer)
- Beneficiary (Exporter)
- Correspondent Bank
- Pay through Bank
- Advising Bank
- Shipper



# Outsourcing of L/Cs to 3<sup>rd</sup> Party

- **Due diligence on provider's policies and practices**
- **Regular on site review of procedures**
- **Right to audit**





# L/Cs - Potential Red Flags

- **Transaction's complexity**
- **Geographic location**
- **Business environment of countries involved including**
  - **Trans-shipping**
  - **Documentation**
  - **Type of goods**



# Trade Finance Risks

- **Co-mingling of legitimate and illegal transactions**
- **Discrepancies on documentation**
- **Under/over pricing on documentation**
- **Goods being shipped not as identified**
- **Over and under invoicing**
- **“Double invoicing”**



# Apparently legitimate transactions linked to criminal activities

- **Black Market Peso Exchange**
- **\$11 billion\* in undervalued exports from Canada**
- **\$7 billion\* in overvalued Canadian imports**

\* (Source: [moneylaundering.com](http://moneylaundering.com))



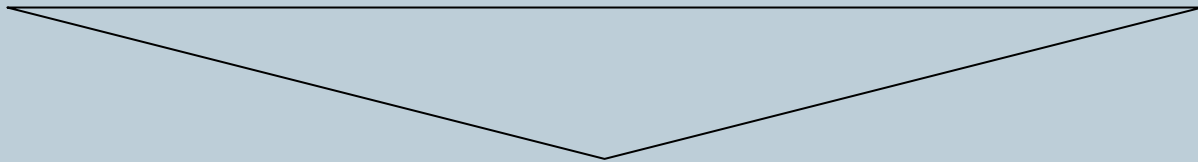
# Trade Finance not a stand alone business

## Correspondent Banking

- Correspondent's AML/ATF processes
- Customer profiles

## Commercial Banking

- AML/ATF risks
- Know the business
- On site visits
- Monitoring of transactions
- Detecting of changing business patterns



**Trade Finance - L/C Processing**



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# Upper Range Practices

- **Spot checking of prices**
- **Inspection of containers**
- **Monitoring of transaction activity**
- **Monitoring of routing of shipment**
- **Review payment routing**



- **Trade finance presents high vulnerability to money laundering and terrorist financing**
- **Highly unlikely that it can be classified as “low risk”**



# Questions & Comments



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# OSFI's Top 10 List of Upper Range & Quality Challenged Practices

(It's actually more than 10.....)

Christine Ring, Nick Burbidge, Keith Martin, Jean  
Bratrud, OSFI



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# You know you've got a problem when.....

- ....you ask OSFI what the PCMLTFA is
- ....you realize your principle risk control is refusing to accept cash from clients
- ....you overhear someone tell staff it's OK to accept Ontario health cards as ID
- ....you know what your high risk accounts are, but have no extra information about them



# You know you've got a problem when.....

- .....your boss tells you to stop worrying about all that compliance stuff and get the business in the door
- ....the CEO asks you how much revenue your proposed transaction monitoring system is going to generate
- ....an account manager in your Caribbean office opens an account for her cousin who is the ex-minister of defence in a South American country



# You know you've got a problem when.....

- ....the RCMP presents you with a production order on residential properties on which you hold the mortgage, only to discover that you never did get the details of the document used to ID the borrower and who claimed income of \$200,000 from doing handy-man repairs.



# **You know you've got a problem when.....**

- ....you discover that you have no documented background information on a high net worth client and the relationship manager has just quit**
- ....the internal auditor wrote the AML policy, audited it and reported to the Board that the institution was fully compliant with all legislative requirements!**



# You know you've got a problem when.....

- ...FINTRAC tells you that your reports have missing or erroneous information
- ...your foreign branch tells you that local AML standards are lower and you need to adopt those to be competitive.
- ...you've several accounts opened using documents in a foreign language which nobody in your organization speaks
- ...you MAY have a problem if for a high percentage of your residential mortgages, the borrower is at the lawyers on the closing date



# You know you're on the right track when.....

- ....you discover a problem in your AML systems yourself and work out how to fix it
- ....you realize it's better to focus on whether there's a risk of ML than ask a lawyer if the product is defined as an "account" in the PCMLTFA
- ....as CAMLO, the Chair of the Audit Committee requests you provide regular AML reports to the Committee



# You know you're on the right track when.....

- ....the head of your Card anti- fraud group suggests regular get-togethers to discuss how his group can add to AML intelligence
- ....you hear that a mortgage loan application you turned away last month was from a biker gang member in the BC Bud business
- .... you make KYC, including face to face identification of customers, your primary objective



# You know you're on the right track when.....

- ....your Board asks you to provide an annual assessment of the money laundering and terrorist financing exposures across all business lines
- ....your Board asks what your enhanced due diligence policies are for correspondent banking and high net worth clients





# Questions & Comments



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# Thank You



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