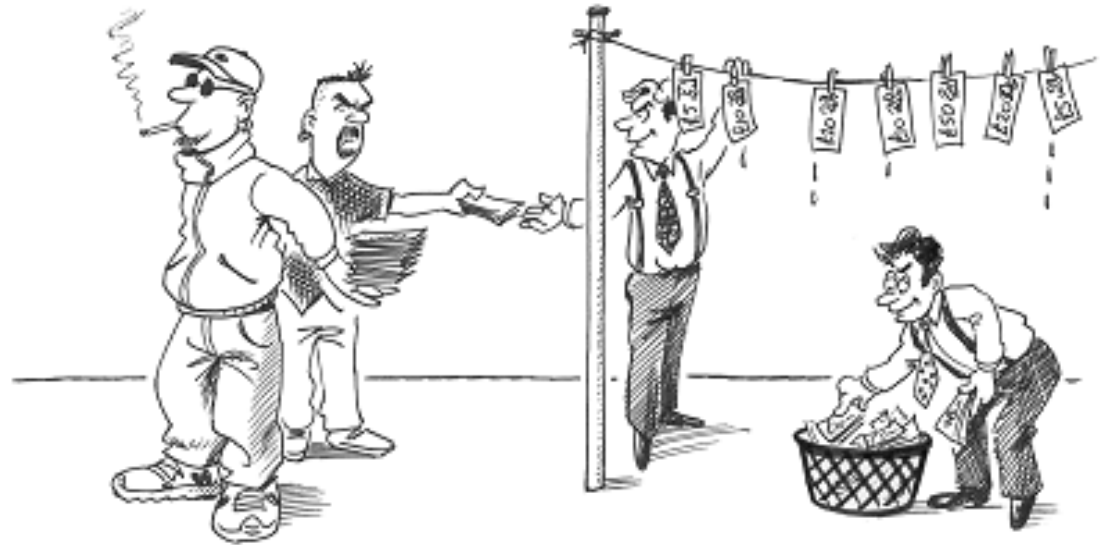


5 Steps to a FINTRAC Compliance Regime

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WELCOME TO THE FINTRAC COMPLIANCE SEMINAR!

Purpose: Establishing a compliance regime for
life insurance brokers

What will be covered?

What won't be covered?

“FinTrac Broker Tip Sheet” available for
reference



WHY DOES THIS MATTER?

- Summer 2011 FinTrac announced random audit of life insurance brokers across Canada
- Testing whether you have a compliance regime in place
- If selected, mandatory to complete a Compliance Assessment Report



I'VE NEVER HEARD OF THIS!

- It's been nearly 12 years since this legislation came into being!
- On July 5th, 2000 the first provisions of the legislation came into force
- Created both FINTRAC and the compliance obligations for reporting entities including life insurance



GET PREPARED

- Since 2008, FINTRAC has been permitted to assess administrative money penalties (AMFs)
- New penalties mark a change in FINTRAC's approach and tone
- A greater expectation that businesses should have effective compliance regimes in place, and that the requirements of the law should be part of their normal course of business.



RECENT EXAMPLE OF AMP

A securities dealer in Winnipeg, Manitoba was issued a penalty of \$28,500 on June 2, 2011, for committing four violations – *all related to not having a compliance regime in place*



Hopefully today's session will
move you from this



To this!



WHO NEEDS A COMPLIANCE REGIME?

- Life insurance companies are responsible for the compliance regime for their employees - ensure they comply with the reporting, record keeping & client identification requirements.
- Independent life insurance brokers are responsible for your own compliance regime.



WHERE DO I START

- There are 5 components to a FINTRAC Compliance Regime
- All 5 steps must be included, although the level of detail varies for each step



STEP ONE:



**Appoint a
compliance officer,
in writing.**



STEP 1: APPOINTING A COMPLIANCE OFFICER

- Document it in writing!
- CO is responsible for implementing your compliance regime and should understand that responsibility.
- The CO could be a senior manager or the owner - If you operate a sole proprietorship, the Compliance Officer will likely be you.
- You may not appoint an insurance company's compliance officer to be your compliance officer.
- You may use your MGAs compliance officer BUT ONLY if the MGA consents!



STEP TWO

Develop written
compliance policies
&
procedures.



IFB 25 YEARS CISF

STEP 2: WRITTEN POLICIES AND PROCEDURES

- Your compliance policies and procedures will be less detailed than those of a larger insurance agency or life insurance company.

But:

- Your policies and procedures have to be in writing and be kept up to date, regardless of whether you are a small business, an individual or an entity.

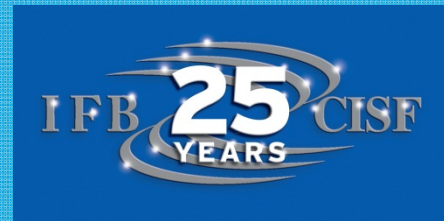


CLHIA GUIDANCE MANUAL FOR LIFE INSURANCE BROKERS

- CLHIA has developed a guide for life insurance brokers that can meet the requirement for written P&P manual
- Links are on IFB's website, individual insurance company websites and the CLHIA website.

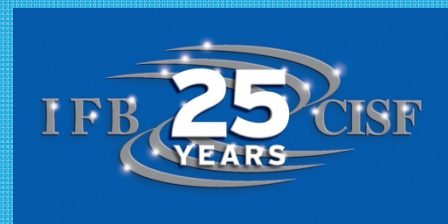
Cautionary note:

FINTRAC expects it to be customized as required, not just the last page signed and dated.



STEP THREE

Assess & document the risks of money laundering and terrorist financing and measures to mitigate potentially high risk situations.



STEP 3: EVALUATING YOUR RISKS TO YOUR BUSINESS

- Your compliance regime must include an assessment and documentation of risks related to money laundering and terrorist financing appropriate to your business.
- This is in addition to your client identification, record keeping and reporting requirements.
- The assessment of your business risks allows you to identify potential high risk situations for money laundering and terrorist financing and develop strategies to mitigate them.



RISK FACTORS

Document and consider the following factors in your risk assessment:

1. The products and services you offer and the delivery channels you use.
2. The geographic locations where you conduct your activities and the geographic locations of your clients.
3. Any other relevant factors related to your business; and
4. Your clients and the business relationships you have with them.



CLIENT IDENTIFICATION

- You must verify the identities of the persons whose signatures appear as the Policyholder(s) / Owner(s) by examining the original government-issued identification documents provided and by verifying the signature on that ID document to the one on the application or signature page.



ACCEPTABLE ID

- Birth certificate, driver's licence, passport, record of landing, permanent resident card, or other similar document
- Provincial health card, if not prohibited by issuing province.
- Documents must have a unique identifier number issued by a provincial, territorial or federal government, eg. a birth/baptismal certificate issued by a church is not acceptable nor is an employee ID card.
- Document has to be valid, eg. an expired driver's licence would not be acceptable.
- A social insurance number (SIN) card can be used to verify the identity of a client, but the SIN (i.e. the number itself) is not to be provided to FINTRAC on any type of report.



EXCEPTIONS TO CLIENT ID

- Existing clients: Once you have confirmed the identity of an individual you do not have to confirm their identity again if you recognize the individual (visually or by voice) at the time of a future sale
- Group Insurance plans offered by employer
- Registered savings products



CUSTOMER ID FOR NON FACE-TO-FACE TRANSACTIONS

- How will you identify such clients? Include in your Policies and Procedures manual and your risk assessment.
- Client identity still needs to be ascertained when a person is not physically present, e.g. You need to open an account or conduct another transaction by mail, email or telephone.
- You may rely on another agent to ID the client provided you have an agreement or arrangement in writing.

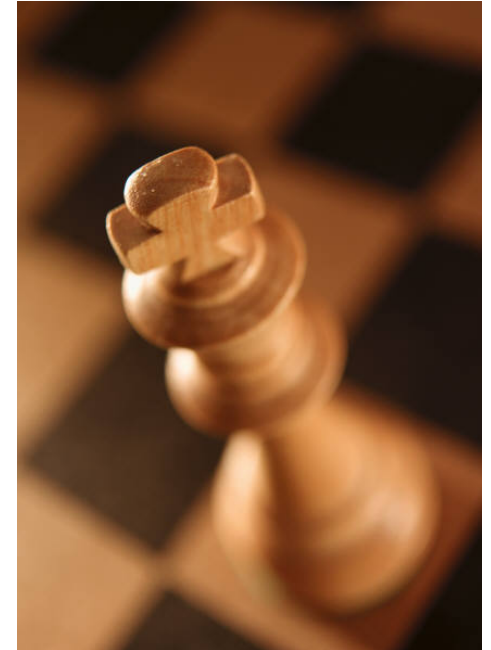
For more information, refer to Guideline 6A, “Client Record keeping” on the FINTRAC website.



ID FOR POLITICALLY EXPOSED FOREIGN PERSONS (PEFP)

A PEFP is defined as an individual who holds or has held one of the following offices or positions in or on behalf of a foreign country:

- Head of state or government;
- Member of the executive council of government or member of a legislature;
- Deputy Minister (or equivalent);
- Ambassador (or an Ambassador's attaché or counsellor);
- Military General (or higher rank);
- President of a state-owned company or bank;
- Head of a government agency;
- Judge; or
- Leader or president of a political party in a legislature.
- Note: also includes family members and relatives of PEFP



\$100,00 LUMP SUM PAYMENTS/DEPOSITS

- Determine if person making a lump sum payment / deposit of \$100,000 or more into a non-registered individual savings account, an immediate or deferred annuity, retirement or life insurance policy, for him/herself, or on behalf of a third party, is a PEFP. These requirements apply to new and existing clients.
- If the person is a PEFP, you must:
 - a) take reasonable measures to establish the origin of the funds;
and
 - b) obtain the approval of senior management before the transaction is conducted.



ASSESS YOUR BUSINESS RISKS

Assess your Business Risks:

Generally, related to products/services that enable clients to move funds.

Products and services that may indicate a higher risk could include:

1. deposit-taking, especially cash, and insurance products that allow large one-time or regular payments, pre-payments or deposits, to be made and withdrawn from deposit or deposit-like accounts (for example, side accounts);
2. “free look” or “cooling off” periods coupled with premium refunds
3. cash values, early cash surrender and loan provisions, and provisions for deposit, accumulation and withdrawal of funds with relative ease and speed e.g. non-registered segregated funds



SAMPLE BUSINESS RISK ASSESSMENT MATRIX

XYZ Agency has assessed the following risk factors for money laundering and terrorist financing based on the matrix published by FINTRAC in Guideline 4.

| | Low | Moderate | High |
|-----------------------------------|-----|----------|------|
| Client and Business Relationships | | | |
| Products | | | |
| Services and Delivery Channels | | | |
| Geographic Location | | | |
| Other Relevant Factors | | | |

Transactions or clients who pose a high money laundering or terrorist financing risk will require additional measures including:

- Identifying additional steps to mitigate the identified risks;
- Taking reasonable measures to keep client ID and beneficial owner information up to date; and
- Taking reasonable measures to conduct ongoing monitoring to detect suspicious transactions.



DELIVERY CHANNEL RISKS

Risk associated with how your products/services are delivered to clients including services delivered to clients in non-face-to-face situations.

Categories of delivery channels that may indicate a higher risk could include:

1. use of other intermediaries or introducers (referrals) that may not be subject to AML/ATF laws and measures and who are not adequately supervised;
2. the Internet, telephone and mail when used as a complete substitute for face to face interaction with the client; and
3. overseas accounts



CLIENT & BUSINESS RELATIONSHIP RISKS

Low: few high risk clients; low turnover of staff who understand AML & deal with clients

Medium: moderate # of high risk clients; recent staff changes

High: large # of high risk clients; high staff turnover



PRODUCT/SERVICES RISKS

Low: few/no large currency transactions; no electronic transactions; few international a/c

Medium: Moderate volume of large currency transactions; offer limited # products/services electronically; moderate number of international a/c

High: significant volume of large currency transactions; offer wide array of electronic services; large # of international a/c



RISK RELATED TO LIFE INSURANCE PRODUCTS

Money Laundering:

- Annuities (including those offering segregated fund investment options)
- Universal Life
- Whole Life
- Deposit / side accounts for prepaid premiums
- Any product during the “free-look” period

Terrorist Financing:

- Any policy type



RISKS RELATED TO GEOGRAPHY

Low: stable known client base; no transactions in high risk locations

Medium: client base increasing due to adding branches, mergers; minimal transactions in high risk locations

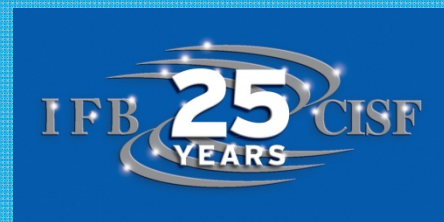
High: large & growing client base in diverse locations, significant # of transactions in high risk locations



HELP IN ASSESSING RISK

Good information and suggestions to help you
assess your business risks in Guideline 4,
Appendices 1,2, and 3

www.fintrac-canafe.gc.ca



STEP FOUR

Implement and document an ongoing compliance training program for you and your staff.



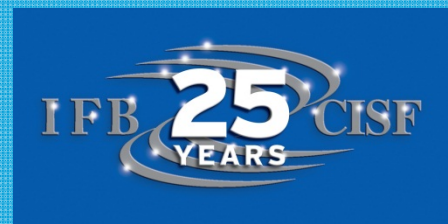
DOCUMENTED TRAINING PROGRAM

- You must have a written training program indicating how you will train your employees, brokers, etc who have client contact so they understand the AML requirements
- Staff must be trained before dealing with clients
- Training program must be kept up to date and reviewed at least every 2 years– pick a date so you remember!
- Keep a record of training and dates as proof



STEP FIVE

Review & document the effectiveness of your policies and procedures, training program and risk assessment, at least every 2 years.

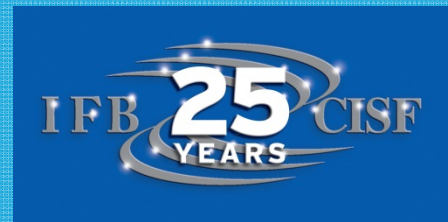


STEP 5: REVIEW & TEST YOUR PROGRAM EVERY 2 YEARS

- Review & test the effectiveness of your policies and procedures, your risk assessment and your training program
- Modify and update your existing policies and procedures, implement new ones if required
- Sign and date the review as proof!

Read FINTRAC Guidance on Conducting a Review

(Excerpt from Guideline 4, Section 8 “Review Every 2 Years”)



5 STEPS TO ESTABLISHING A COMPLIANCE REGIME

All 5 steps must be included but the level of detail will vary:

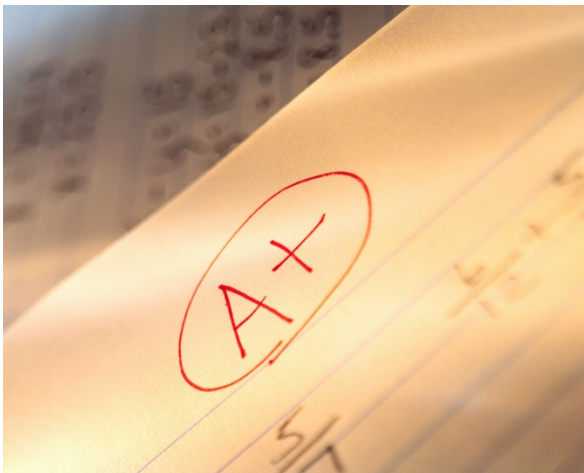
1. Appoint a compliance officer, in writing.
2. Develop written compliance policies & procedures.
3. Assess & document the risks of money laundering and terrorist financing and measures to mitigate potentially high risk situations.
4. Implement and document an ongoing compliance training program for you and your staff.
5. Review & document the effectiveness of your policies and procedures, training program and risk assessment, at least every 2 years.

Guideline 4: Implementation of a Compliance Regime

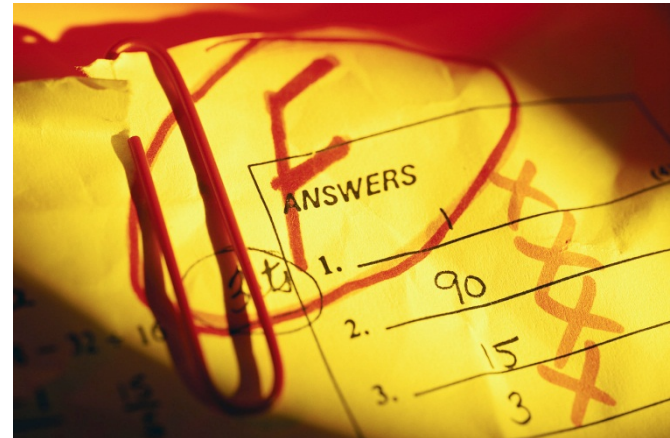


COMPLIANCE ASSESSMENT REPORT

A copy is available at www.ifbc.ca –
download it and see how you do!



Or...



QUESTIONS?

