

# What's the problem with PEPs?



NZ law states that AML reporting entities **must do** PEP checks, but many practices aren't doing them. This is a concern, because they need to be done. Only doing PEP checks if someone is a foreign individual is not sufficient.

If you have got caught out without PEP checks – the good news is they can be really easy to get done! This article aims to demystify PEP checks. It explains: What is a PEP check? What is considered good enough? What actually needs to get checked? And what happens if a PEP check is a 'hit'?

## So what is a PEP?

A **Politically-Exposed Person (PEP)** is an individual who, by virtue of their position in public life, may be vulnerable to corruption. The definition of a PEP can be found in Section 5 of the Act. New Zealand legislation currently limits this concept to foreign PEPs, and does not include domestic PEPs, i.e. persons who hold or have held public offices in New Zealand. PEPs are defined in the Act as including an individual who holds, or has held at any time in the preceding 12 months, in any overseas country the prominent public function of:

- Head of state or head of a country or government;
- Government minister or equivalent senior politician;
- Supreme Court Judge or equivalent senior Judge;
- Governor of a central bank or any other position that has comparable influence to the Governor of the Reserve Bank of New Zealand;
- Senior foreign representative, ambassador, or high commissioner;
- High-ranking member of the armed forces;
- Board chair, chief executive, or chief financial officer of, or any other position that has comparable influence in, any State enterprise.

The definition of a PEP also includes a spouse, partner, child, child's spouse or partner and parent of any individual listed above.

## **Who should you run a PEP check on?**

As a Reporting entity you must do a PEP check on every individual who is a customer (or beneficial owner of a customer) that you provide in-scope AML services to. You must perform a foreign Politically Exposed Person check on individuals from **every country**, including New Zealanders. 'Foreign' has been incorrectly interpreted by some to mean 'Foreign Individuals'. It actually refers to all individuals but only checks their PEP status in 'Foreign countries'.

While you must do PEP checks for AML, you should consider if an electronic PEP check is a prudent good sense thing to do generally. That is because a PEP check also checks Sanctions Lists, to check if the individual has committed a serious offence (which they have been "sanctioned" for). So for a few dollars you can find out if a potential customer or a potential employee has a record of serious criminal activity or fraud. That lets you check who you are considering working with. With so many kiwis returning home from overseas, there are more New Zealanders who will have a foreign record of activity

(either as a PEP or even on the Sanctions lists). That makes PEP checks even more important!

## What actually gets checked?

A Politically Exposed Person (PEP) check searches an individual's name and date of birth against lists of political persons, national and international government sanction lists; and persons officially linked to, or convicted of, high profile crimes or terrorism.

Doing a proper PEP check yourself manually can be really hard work. For example here is a link to the [OFAC sanctions list](#). It has over 1400 pages of names to scan through. And this is just one of the many, many lists that should be checked. You are basically looking through each country in the world to review if some has, or had political affiliations there. Each country keeps its own 'naughty list'. And a PEP check doesn't just match the person themselves. It also looks at their relatives, close associates and the companies they are linked to. It really is a search job best suited to an algorithm run by a computer.

That is why running an electronic PEP check just makes sense. Our electronic PEP check matches against a huge number (over 100,000) of sources across many different languages (over 40). It's cheap, its fast, and 2Shakes runs a PEP check for just \$2.50. (Yes, it really is less than a latte).

## And what does it mean if a PEP check is a 'hit'?

Have you ever seen the Skinny mobile company [advertising campaign](#) where not-so-famous faces like Ben Affleck, Julia Roberts, Michael Jordan, Clint Eastwood, and Michael J. Fox feature? PEP hits can be a bit like that.... Just because the name is a PEP hit, it doesn't necessarily mean that it is the same person.



The not so famous Clint Eastward from the Skinny advert

Furthermore, because each source checked is different, an 'exact' match does not always mean that it is a true match. For example, the American prison system often provides only the year of birth to check against, not the date of birth. So PEP checks that hit are not necessarily a true match (even when the report comes back showing the words 'exact match').

On that, it is worth remembering a PEP check hit might be a sanctions list hit, rather than a Political hit. This means that while the person does not technically have a political affiliation, the name matches someone who has been convicted or who is wanted in relation to a criminal activity. For example they may be been convicted of serious fraud. Knowing any criminal activity related to a customer is part of KYC (knowing your customer).

What all this means is that you need to review a PEP check report and use your judgement. If you think that it might be a true match you may decide to discuss it with your client to explain what you have found and see if they have an explanation.

## When should you do a PEP check?

**For new customers** a PEP check should be done as part of CDD, but you can decide to do it soon after you have entered into a business relationship with them. 2Shakes allows you to do AML Customer Due Diligence (CDD) that includes an electronic ID verification service. It gets all your CDD checks (including PEP) done quickly and recorded accurately.

**For existing customers** the regulators would like you to have done AML CDD on your existing customers by now, including the PEP checks. At the very least,

you need to do CDD where there has been a material change in an existing customer (a change that would affect their risk profile).

**Ongoing CDD checks** for individuals are an opportunity for you to re-confirm the PEP status over time. Re-running PEP checks periodically means you can ensure that things haven't changed, and helps with your Ongoing Customer Due Diligence/Monitoring.

## **Okay, so what do you need to do to comply?**

Exactly what is sufficient? The regulators have issued formal warnings for failure by reporting entities to take reasonable steps to determine the PEP status of their customers. This [article](#) indicates that simply asking your client if they are politically exposed was considered insufficient for one reporting entity. Page 10 of the FMA's [2018 monitoring report](#) indicates that they are looking for PEP checks to be done for new customers as part of onboarding, looking for PEP checks to be redone from time to time, and indicate that PEPs without sanction checks were considered insufficient. It is important to clarify that the FMA position here, has not been tested in a court of law. So, while this blog article recommends an electronic PEP check (as a comprehensive and fast check for a small cost), you could decide to do a PEP check yourself in other ways. It is just that you may need to defend this decision, if you are questioned on it by the regulator.

Whatever your decision you need to make sure that your AML programme describes how you will do PEP checks on clients (and beneficial owners) as part of onboarding new clients. You must keep a record of the PEP checks you have done, and any ongoing monitoring checks you do.

If you do find someone is a politically exposed person you should consider if you want to establish or continue the business relationship with them. The AML CFT act requires that you get 'senior management' approval to proceed. If you do decide to go ahead, make sure you record the decision of senior management. (You can use Notes and Files in 2Shakes to do this).

**Get sorted – make sure your practice is fully compliant**

2Shakes has always included PEP checks as part of our Smart ID electronic verification service. We made it the best value highly compliant electronic ID verification available because we wanted it to be the default selection for our customers. We wanted electronic ID verification with PEP check an easy choice by making it as affordable as possible.

Our platform also gives you the option to do manual identity verification and CDD. While a Manual ID check is a great idea if you are meeting with your client in person, it does place an obligation on you to also ensure that you do a PEP check. So 2Shakes offers you a PEP only option for those who have confirmed identity manually.

2Shakes have noticed during many AML audits that PEP checks are an area where practices have struggled. Getting a PEP check done electronically is actually very easy and cheap to do. We know you want to know your customer before you decide to go into business with them, whether they are politically exposed, or even a crook! A PEP check will tell you that, and keep you compliant with AML at the same time. It's very fast to do, and it costs less than a latte.

To find out more about how to do PEP checks and see what a PEP report looks like, check out our [PEP webinar](#).