



WHITEPAPER

Politically Exposed Persons (PEPs): Risks, Compliance Challenges and Best Practices for Effective Screening

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Politically Exposed Persons – what's the risk?

Screening for Politically Exposed Persons (PEPs) is a critical part of risk management for regulated businesses and should form an integral part of any Anti-money laundering (AML) compliance programme.

Failing to adequately assess PEPs can significantly increase the risk of a business being used for money laundering or financial crime, which is not only a crime in itself, but makes the business an enabler of serious organised crime and terrorism.

Furthermore, non-compliance with AML requirements can result in severe penalties, reputational damage, and increased scrutiny from regulatory bodies. In this whitepaper we will look at PEPs in detail, looking at what they are, why they pose a risk, why being able to identify PEPs is a key part of any anti-money laundering programme, and the consequences not identifying PEPs can have of a business.

We will also explore the most efficient way to identify PEPs.

What are PEPs?

PEP stands for Politically Exposed Person. A PEP is someone who either holds, or has held a prominent public or political position, or has a close association with a high-ranking Government official.

PEPs are considered high-risk because their position, influence - and access to public funds - can make them more vulnerable to bribery and more susceptible to corruption and misuse of power, which can lead to involvement in financial crimes, such as fraud and money laundering. Screening for PEPs is essential for businesses to effectively mitigate these risks, comply with anti-money laundering (AML) regulations, and protect themselves from financial crime.

What are some examples of PEPs?

The term PEP can cover a wide range of roles and positions and different businesses will have different guidelines when it comes to what they define as a PEP, but in the UK PEPs are generally agreed to be individuals that come under one of the following categories:

- Leaders of political parties
- Members of parliament and the House of Lords
- Ambassadors
- Government officials
- Senior executives in government-owned businesses, e.g. the BBC
- Senior members of religious groups
- High-ranking military officials
- Close friends or relations of any of the above – often known as RCAs (Relatives and Close Associates)

For more information about PEPs read [Everything you need to know about PEPs - a comprehensive guide](#)

Why are PEPs are considered high risk?

PEPs present a higher risk of money laundering compared to non-PEPs due to their potential involvement in corruption, bribery, and other illicit activities. Their access to public resources, influence over policies, and ability to direct funds increase the likelihood of misuse of power for personal gain, which makes them vulnerable to financial crime like money laundering.

The risks associated with PEPs include:

- **Corruption and bribery:** The nature of their positions makes PEPs more prone to engaging in unethical practices and abuse of their influence for personal or financial gain.
- **Relatives and close associates (RCAs):** The family members and associates of PEPs are often used as intermediaries to launder money or hide illicit activities. These individuals share the risk of engaging in suspicious transactions.

- **Access to Public Funds:** PEPs often have control over or access to significant public assets, which can be misappropriated for personal use or diverted through illicit channels.
- **Influence and decision-making power:** Due to their political or governmental roles, PEPs may influence laws, regulations, or contracts, which makes them potential targets for bribery and corruption.
- **Adverse media coverage:** PEPs often attract media scrutiny, especially if they are suspected of involvement in illegal activities. This can damage the reputation of any business associated with them.

It is not illegal to do business with a PEP, but enhanced due diligence is required to assess the risks. This involves investigating the PEP's financial background, public/media profile, and potential links to illicit activities. Businesses need to assess whether entering a relationship with the PEP could harm their operations.

Implications of Not Identifying PEPs in Business:

- **Increased risk of financial crime:** If a business fails to identify a PEP, it might unknowingly facilitate money laundering or other financial crimes. This exposes the business to significant legal and financial risks.
- **Regulatory penalties and fines:** Regulatory bodies require enhanced due diligence (EDD) on PEPs. Failing to identify and assess a PEP can result in non-compliance with AML laws, leading to hefty fines and sanctions from regulators. For instance, businesses in the UK must comply with the money laundering, terrorist financing, and transfer of funds (information on the payer) regulations.
- **Reputational risk:** Businesses associated with financial crime or corruption risk suffering significant reputational damage. Clients, partners, and investors may distance themselves, leading to lost business opportunities and long-term brand damage.
- **Legal consequences:** Non-identification of PEPs can lead to criminal charges or lawsuits against the business, especially if the company is found to have facilitated illegal activities.

- **Operational disruption:** Failure to comply with AML requirements, including identifying PEPs, can lead to investigations, audits, and regulatory scrutiny. This disrupts business operations and can incur additional costs to rectify the non-compliance.

How to Screen for PEPs Effectively

Effective PEP screening involves three key steps:

1. **Identification and verification:** Verifying the identity of individuals to ensure they are who they claim to be.
2. **PEP screening:** Screening individuals against global databases of PEPs to determine if they hold or have held a prominent public office. This includes RCAs who might share the same risks. Data about PEPs can be obtained from a variety of different sources, including government lists, public records, media and the internet. (read [PEP Lists explained](#) to find out more).
3. **Enhanced Due Diligence:** If a person is identified as high risk – which includes anyone identified as a PEP - businesses must conduct enhanced due diligence to thoroughly assess the [level of risk](#) and the potential for involvement in illicit activities. This includes examining adverse media coverage, political affiliations, and financial history, which will include a [Source of funds](#) check.

Ongoing Monitoring and Risk Assessment

The risk associated with a PEP can change over time, so it's vital to continuously monitor their activities. Businesses must track any changes in their political status, geographical movements, or involvement in financial transactions. This ongoing monitoring ensures that businesses remain compliant with regulatory requirements and are not unknowingly engaging in high-risk relationships.

Screening for PEPs is a vital part of AML compliance and risk management. By identifying and conducting due diligence on PEPs, businesses can protect themselves from being exploited for money laundering and financial crime, while meeting regulatory obligations and safeguarding their reputation.

How SmartSearch Can Help with PEP Screening

SmartSearch is an award-winning digital compliance platform that simplifies and strengthens the process of screening PEPs, ensuring businesses remain compliant with AML regulations while mitigating risks effectively.

Here's how SmartSearch can help your business manage PEP screening and compliance:

- **Identification, verification, and automatic screening for sanctions and PEPs**: SmartSearch uses global data from partners like Experian, Equifax, and TransUnion, combined with access to over 1,100 PEPs and sanctions lists including the [Dow Jones Watchlist](#). This ensures quick and accurate identification of PEPs - and their associates - reducing human error and the [false positives](#) that are common in manual processes.
- **Enhanced Due Diligence (EDD)**: If SmartSearch identifies a PEP, enhanced due diligence is triggered automatically. This includes deeper checks into their financial history, adverse media, and potential links to financial crime. SmartSearch helps businesses thoroughly assess the risks of engaging with PEPs or their associates.
- **Ongoing, monitoring and automatic data hosting**: SmartSearch doesn't just screen PEPs at the onboarding stage. Its perpetual KYC ([pKYC](#)) feature continuously monitors client databases, alerting businesses to any changes in the risk profile, such as an individual becoming a PEP or being involved in adverse media and automatically records all results ensuring ongoing compliance.

- **API Functionality:** For businesses looking to streamline their processes, SmartSearch offers API integration, allowing for seamless onboarding and real-time PEP checks within your existing systems.
- **Comprehensive digital compliance:** SmartSearch is not just a PEP screening tool. It integrates identification, verification, sanctions checks, enhanced due diligence, and ongoing monitoring, all in one place, as well as checks on businesses (Know Your Business – KYB checks) – including identification of ultimate beneficial owners - helping businesses stay compliant with minimal effort.

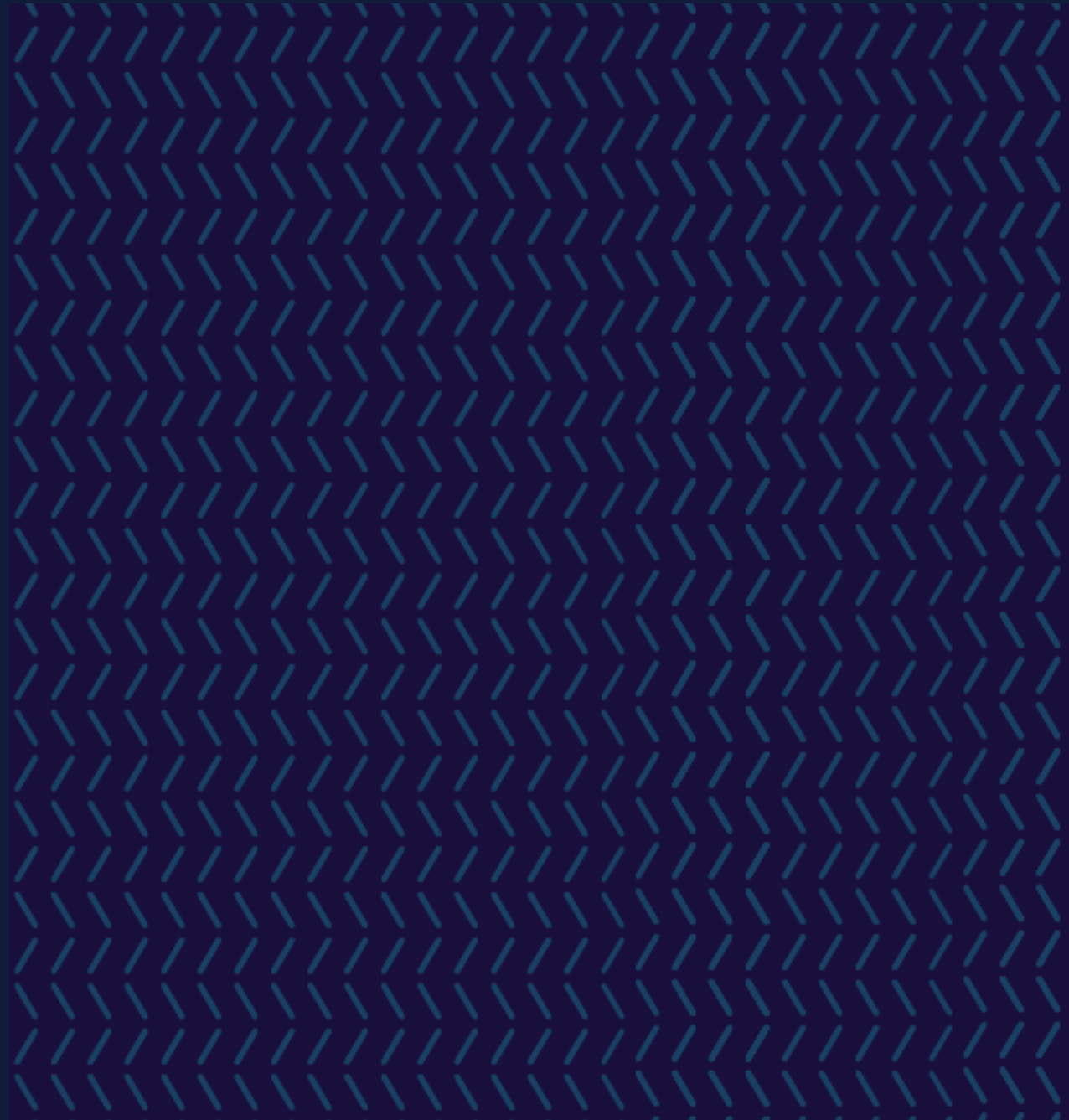
By using SmartSearch, regulated firms can manage the complexities of PEP screening and reduce their exposure to money laundering risks, while ensuring compliance with global AML regulations.

About SmartSearch

SmartSearch is a market-leading all-in-one Anti-Money Laundering (AML), Fraud Prevention and Know Your Customer (KYC) platform which delivers award-winning AML verification for individuals and businesses in the UK and international markets.

SmartSearch's very latest technology delivers an unrivalled user experience to over 7,000 client firms and 60,000 users, enabling them to comply with the latest AML regulations.

For additional information on SmartSearch's services, or a free platform demonstration, please contact us on info@smartsearch.com or **01138688529**.



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