

# The Watchers

BY STEVEN LAMB

Life must have been a lot easier for a financial advisor in the 1940s. If Sydney Greenstreet or Peter Lorre walked in your door as clients, you probably knew there was something fishy about their transactions. But in today's world of white collar crime and suburban grow-ops, money launderers have become a lot tougher to spot.

If crime compromises Canada's financial system, everyone loses, according to Jodi Angevine, regional officer, Central Region, Financial Transactions and Reports Analysis Centre of Canada. And FINTRAC can only succeed if it

receives the needed reports from the industry.

The best line of defense is the compliance officer of the managing general agency.

"If you or your business has a licence to sell insurance, you are considered a reporting entity under the act, and have certain obligations," Angevine said at the fourth annual Advisor MGA Symposium.

"For the securities industry, compliance functions are generally centralized at the dealership level – they are responsible for ensuring that their operations,

**Don't deal with terrorists. It's not worth the paperwork.**

including distribution, are compliant with the act and the regulation."

Because the broker and the MGA are the first two lines of defence, it is incumbent upon them to establish policies and procedures to spot suspicious transactions.

Those policies and procedures need to spell out what identification information needs to be taken by the broker.

When the client is a business, the advisor and MGA also need to know the identity of the beneficial owner, defined as any individual with an ownership stake above 25%.

Laundering the proceeds of crime takes several steps. The first step is placement of the cash into

## ARE MASS ADVERTISING CAMPAIGNS, LAUNCHED BY CARRIERS, CHANGING THE TYPE OF POLICIES CLIENTS ARE REQUESTING?

	2008 n = 483 %
<b>Yes</b>	<b>36</b>
Yes, definitely	9
Yes, kind of	27
<b>No</b>	<b>46</b>
Don't know / not sure	18

Source: Advisor Group MGA 2008 Survey

the financial system, the most difficult part for the launderer. Odds are a client seeking to launder money will not be so brazen as to show up at the advisor's office

with a sack of cash to invest.

But if the criminal manages to place the cash into their account without attracting the advisor's suspicions, the next step is referred

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to as “layering” by investigators, the investing and reinvesting of dirty money to make it appear legitimate.

“Criminals execute a series of financial transactions to create as many layers of transactions as possible, to try and make it difficult for police to connect the

assets to their criminal origins,” Angevine says.

“If a criminal gets dirty money into the system, that doesn’t make it clean. Any product that is cancellable or redeemable, that provides for a cash savings component can be, and has been, used by a criminal to launder funds.”

Because insurance is less closely scrutinized than the investment side of an advisor’s business, it

presents the best opportunities for the criminal to layer their proceeds.

“Getting the cheque from the insurer is generally the goal,” she said. “It adds to the appearance of legitimacy; it will not likely raise suspicion when it is deposited into a bank account.”

Angevine says one common method for placing the cash into the system, is to deposit it into a numbered company account. They can then use the money from that account to buy a universal life policy, and hold it for only a few months before canceling the policy.

This is possibly the easiest way to spot criminal activity.

“Criminals have exploited the 10-day free-look period and we’ve also seen them purposely overpay their premiums and then request a cheque back from the insurer for the overpayment,” she said.

“Criminals are prepared to pay cancellation fees and early redemption penalties. These don’t deter them, they just consider it a cost of doing business.”



Sam Albanese, Centre for Financial Services, Seneca College

FINTRAC has introduced a new category of client to be watched for, the Politically Exposed Foreign Person. This category includes any client who formerly held office – civil or military – in a foreign country who makes a deposit of \$100,000 or more into an insurance policy.

There is no such minimum value attached to suspicious transactions, as terror financing usually involves the much smaller sums, which are used to fund the everyday living expenses of terrorists. Advisors and MGAs alike must

keep an eye out for any transaction that doesn’t seem “normal.”

“Don’t deal with terrorists; it’s not worth the paperwork,” she suggested.

As of June 23, 2008, all participants in the financial services sector are required to report even attempted transactions.

Rather than simply turning a suspicious client away, advisors would be better served to execute the transaction, then report it to FINTRAC. If the client is on the up-and-up, there will be no loss of business.

## HAVE YOU RECEIVED ADEQUATE TRAINING TO EXPLAIN ANY EXTRA COSTS OR CONDITIONS THAT COME WITH THESE RECENTLY-INTRODUCED PRODUCTS?

Those who believe that mass advertising campaigns will change the type of policies which clients are requesting

2008  
n = 172  
%

### Yes

76

Yes, definitely

28

Yes, kind of

48

### No

22

Don’t know / not sure

1

No Answer

1