SENIOR LIFE INSURANCE COMPANY®

Anti-Money Laundering Training
Lesson One

Background

Recognizing the need for a more comprehensive anti-money laundering regime to fight drug trafficking, organized crime and international terrorism, the U.S. Congress passed and President George W. Bush signed into law the USA PATRIOT ACT (Patriot Act), which, among other things, amended the Bank Secrecy Act (BSA) to require all businesses defined in the BSA as financial institutions to implement an anti-money laundering (AML) program and report suspicious transactions to the Financial Crimes Enforcement Network (FinCEN). An insurance company is defined as a "financial institution." The characteristics of financial products, including certain life insurance products, make them potentially vulnerable to those seeking to launder money. FinCEN relies upon a network of state, federal and international law enforcement agencies to collect, analyze and disseminate information about money laundering. FinCEN is also the repository for all Suspicious Activity Reports (SAR).

Bank Secrecy Act (1970)
The BSA grants the Treasury Department the authority to require firms under its jurisdiction to develop written policies and employee training programs for compliance with the provisions of the BSA. Additionally, the reporting and recordkeeping rules within the BSA require a financial institution to:

- Maintain certain records in order to allow investigators to trace transactions.
  - This includes information such as the identity and address of the participants in a transaction.
  - The legal capacity in which a participant in a transaction is acting.
  - The identity of the beneficial owner of the funds involved in any transaction.
  - A description of the transaction.
- File a Currency Transaction Report (CTR) with the Internal Revenue Service (IRS) for each transaction in currency of more than $10,000. The types of transactions include: deposits, withdrawals, or currency exchanges in an amount exceeding $10,000.
  - For purposes of the CTR, multiple transactions taking place on the same day, for the same person, and the at the same financial institution count as a single transaction; this is known as the Aggregation Rule.
- File a Report of International Transportation of Currency or Monetary Instruments (CMIR) when the amount of currency or monetary instruments transported into or outside of the U.S. exceed $10,000. Monetary instruments include any traveler's checks or other checks, securities, or stocks that have been signed over or are otherwise in such a form that ownership goes to the bearer.
- Maintain information concerning sales of monetary instruments purchased with cash in amounts from $3,000 to $10,000 to prevent structuring transactions.
- Keep records for any transmittal of funds over $3,000 (the "Travel Rule").

- Certain financial institutions must file a Suspicious Activity Report (SAR) for any suspicious transaction or activity.

USA Patriot Act (2001)
On the heels of the terrorist attacks on September 11, 2001, the Patriot Act was signed into law to combat terrorism. The Patriot Act gives law enforcement agencies broader powers in dealing with money laundering and terrorism, and makes it more difficult for money launders to use their traditional financial channels to launder money. The Patriot Act created new anti-money laundering responsibilities for insurance companies.

Money Laundering
Money laundering is the illegal practice of placing money gained from criminal activity, "dirty money," through a series of apparently legitimate transactions in order to hide the criminal origin of the money. The goal is to make money from criminal activity appear to be from legitimate sources. Money is usually associated with cash though non-cash transactions can play a role. Any financial transaction can be a part of the process to hide the origin of the money.

Mechanics
Although money laundering is a diverse and often complex process, it basically involves three independent steps that can occur simultaneously, separately or overlap.

1. Placement. This is the first step in the washing cycle. Money laundering is a cash intensive business, generating vast amount of cash from illegal activities. The monies are placed into the financial system or retail economy or are smuggled out of the country. The aims of the launderer are to remove the cash from the location of acquisition so as to avoid detection from the authorities and to then transform it into other asset forms. A common method is "structuring" which breaks up the currency transactions into portions that fall below the reporting threshold. Examples for disposal of bulk cash include:
    - Payment of premiums on life insurance policies or annuity contracts;
    - Large number of transactions;
    - Using cash;
    - Using cash equivalents;
    - Not using normal banking channels.

2. Layering. In the course of layering, there is the attempt at concealment or disguise of the source of ownership of the funds by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity. The purpose of layering is to disassociate the illegal monies from the source of the crime by purposely creating a complex web of financial transactions aimed at concealing any audit trail as well as the source and ownership of funds. Examples of layering include:
    - Multiple transactions
    - Purchasing financial products such as life insurance and annuities
    - Cash transfers
    - Currency exchanges

3. Integration. Integration is the final step in the process. It is this stage at which money is integrated into the legitimate economic and financial system and is assimilated with all other assets in the system. Integration of the "cleaned" money into the economy is accomplished

by the launderer making it appear to have been legally earned. By this stage, it is very difficult to distinguish legal and illegal wealth. Methods popular to money launderers at this stage are:

- Purchasing legitimate businesses
- Borrowing against insurance policies
- Termination of insurance policies
- Early termination of annuities

Ramifications

Penalties for money laundering can be severe. Fines could be twice the amount of the transaction up to 1 million dollars. Any property involved in the transaction or traceable to the proceeds of the criminal activity may be subject to forfeiture. Individuals are subject to prison terms for being willfully blind to the fact that the transaction involved illegal funds. In addition, insurance companies risk losing their charter, and agents risk being removed and barred from insurance. Insurance companies have their own disciplinary policies and procedures.

Agents not complying could be subject to disciplinary action up to and including termination and will be reported to the proper legal authorities. To protect yourself from a willful blindness charge:

- Report suspicious behavior to the Senior Life Market Compliance Department and keep documentation of communication;
- Know your clients; and
- Stay alert for any suspicious behaviors.

Reputational Risks

One of the most harmful outcomes from involvement in a money laundering investigation is damage to the agent and insurance company's reputation. Being aware of and following money laundering requirements helps protect our most valuable sales tool, your reputation.

Continue to Lesson Two.