Anti-Money Laundering Facts

Security Benefit Life Insurance Company (SBL) has implemented a formal anti-money laundering (AML) program in response to the Financial Crimes Enforcement Network's (FinCEN) final rules requiring certain insurance companies to establish anti-money laundering programs and file Suspicious Activity Reports (SAR). The rules will help in deterring the use of certain insurance products, by criminals and terrorists, in money laundering schemes and help ensure that the Bank Secrecy Act is applied appropriately to all businesses defined as "financial institutions."

Because of the important role the broker-dealers and agents play in assisting SBL in preventing money laundering, the rules require SBL to integrate the broker-dealers and agents in its anti-money laundering program. SBL has amended its selling agreement to include the extended obligations under AML, and the attainment of certifications attesting to those obligations no less than on an annual basis.

This fact sheet has been compiled to explain the basic definitions and red-flags that broker-dealers and agents should be aware of. In addition, areas of SBL's AML program will be identified as it applies to the broker-dealers and agents, and an "AML Quick Reference" chart will summarize the important policies/procedures that are essential for all broker-dealers and agents.

How is money laundered?

Typically, there are three steps to money laundering: placement, layering and integration.

In the initial - or **placement** - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cashiers checks, money orders, travelers checks, etc.) that are then collected and deposited into accounts at another location.

After the funds have entered the financial system, the second – or **layering** – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sale of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not cooperate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – **integration** – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

Insurance companies were, prior to 9/11, not generally viewed as target vehicles for money launderers or terrorists, even though regulators had noted that policies would sometimes be purchased and then canceled, or the cash surrender value quickly retrieved, which was sometimes part of the layering process by which a launderer "washed" proceeds of illicit activities and brought it into the mainstream financial system. In the last few years, the Financial Crimes Enforcement Network has spent considerable effort in analyzing the vulnerabilities of the insurance industry, and the resulting anti-money laundering requirements now justify a checklist designed to help compliance personnel of insurance companies, and their advisors, meet the standards necessary for compliance.

Security Benefit attempts to combat money laundering through our Anti-Money Laundering (AML) procedures, which include Customer Identification Procedures (CIP), Office of Foreign Assets Control (OFAC) verification, Suspicious Activity Report (SAR) filing and Form 8300 (Report of Cash Payments Over $10,000 Received in a Trade or Business) reporting.

Even though Security Benefit's AML procedures only apply to certain products, the following requirements still apply to all insurance products:

- OFAC verification
- Form 8300 Reporting
- Criminal liability for money laundering

Due to your contact with the customer, you are in a position of knowledge as to the source of investment assets, the nature of the clients, and the objectives for which the insurance products are being purchased. You are our first line of detection for any suspicious transactions. The following are some red flags to adhere to:

<u>Transaction Red Flags</u>

- early cancellations of policies and annuities
- large loans taken out against a policy
- large single premium policies or annuities
- large prepayments of premiums, especially when followed by a loan
- large payment made by, or the refund check directed to, an apparently unrelated third party

Customer Red Flags

- Customers who refuse or appear reluctant to provide identifying information when purchasing products or who provide minimal or seemingly false information
- Instances where the information provided by a customer is inconsistent or appears suspicious
- Customers who provide a cellular telephone number as a home telephone number or a telephone number that has been disconnected
- Customers who do not want to meet at their residence or place of employment or who want to meet during odd hours
- Customers who have unusual concerns about compliance with Customer Identification or reporting requirements
- Customers who attempt to purchase an annuity or make an investment in an amount far beyond their apparent means, that is inconsistent with their needs or that has no obvious purpose
- Customers who are less concerned with long term performance or the economic terms of an insurance product, annuity or other investment product than in early surrender or cancellation
- Customers who do not appear to be concerned about the cost of the product, or other transaction cost – or in determining suitability of a product to his/her needs
- Customers who seek to purchase a single premium policy or annuity or to prepay premiums and borrow the maximum cash value or use the policy or annuity as collateral
- Customers who seek to cancel policy during the free-look period or prior to maturity without regard to penalties
- Customers who demand policy loan or surrender value quickly without regard to penalties
- Customers who open multiple accounts in the same or different names and then conduct numerous internal transfers among the accounts
- Customers who make payments with large amounts of cash or numerous money orders, travelers checks, cashiers checks or bank drafts, especially if the instrument appears to have been structured to avoid the $3,000 recordkeeping or $10,000 reporting requirement
- Customers who pay with checks or wire transfers from an account of an unrelated third party or from multiple accounts
- Wire transfers to or from offshore banks, non-bank financial institutions, or other financial intermediaries
- Wire transfers to or from a geographic location that doesn't make sense for that customer

SBL's AML Program and how it applies to the broker-dealer or agent

SBL has key areas that comprise their AML policy. The following are some areas that are specific to broker-dealers and/or agents:

1. SBL will not accept the following forms of payment:

    - money orders
    - third party checks to open an account
    - credit card checks
    - money market checks to open another money market account
    - traveler's checks

2. No P.O. Box addresses will be accepted as a residential address for any account. A physical street address is required. A date of birth will be required also to open an account.

3. No account will be opened without a taxpayer identification number for a U.S. person or one or more of the following for a non-U.S. person: taxpayer identification number, passport number and country of issuance, alien identification card number, or number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or other similar safeguard.

4. Appropriate documents for verifying the identity of customers include, but are not limited to, the following:

    * For an individual, an **unexpired** government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport; and

    * For a person other than an individual, documents showing the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument.

5. Suspicious activity should be reported immediately to SBL's Compliance Department by e-mailing information to: compliance.lawdept@securitybenefit.com

6. The filing of a SAR is confidential and agents of SBL are expressly forbidden to notify any person involved in the transaction that it has been reported.

7. AML training will be conducted by the selling broker-dealer, bank, or agency, as applicable in accordance with their pre-existing AML obligations under the USA Patriot Act and the Bank Secrecy Act.

8. The selling broker-dealer, bank or agency, as applicable, will provide such appropriate periodic certifications as SBL may request regarding the firm's performance of the above obligations.

SBL's AML QUICK REFERENCE CHART

Timeline	AML Procedure/Policy	Responsible Party
Point of sale	Due diligence/Information gathering	Agents
Point of sale	Customer Identification Procedures: (see # 2, 3 & 4 on previous page)	Agents or SBL if no broker/dealer was involved.
5 years after the account has been closed	Retention of CIP documents	Agents and/or SBL, depending on who performed the CIP procedures.
Various time periods	Acceptable methods of payment	SBL has established acceptable methods of payments. It will be the agents' responsibility to follow these guidelines and report any inappropriate payment behavior to SBL.
Should be reported within 20 days of the initial detection	Suspicious activity	Agents are the first line of defense in the detection of suspicious activity. They will be responsible for reporting any suspicious activity to SBL via email to: compliance.lawdept@securitybenefit.com
Filed within 30 days of the initial detection of the suspicious activity; this can be extended to 60 days if no suspect can be identified	Filing a Suspicious Activity Report (SAR)	SBL Law Department
5 years from filing date	Record Retention for a SAR	SBL Law Department
By the 15th day subsequent to the transaction	Form 8300 Filing, as applicable	SBL Support Services will complete and SBL Tax Dept. will file
Weekly	OFAC Compliance for the company's files	Automatic check performed by SBL
Daily	OFAC Compliance for daily check production	SBL Customer Management Group (CMG)
5 years from a positive OFAC match	Identified OFAC files	SBL Law Department
Annually	AML Training	Broker-Dealers and banks trains their agents and reps and SBL trains internal SB associates
Annually	Testing of AML Program, broker-dealer and agent integration	SBL Law Department – agents and broker-dealers are required to cooperate with certification and testing requests.