

NATIONAL LIFE GROUP ANTI-MONEY LAUNDERING TRAINING

Money Laundering is the process of creating the appearance that proceeds gained from illegal activities (referred to as “dirty money”) originated from a legitimate source. The three stages of Money Laundering are:

Placement – introducing the “dirty money” into the financial system

Layering – concealing the source of the “dirty money” (usually through complex financial transactions)

Integration – moving the “clean money” back into the economy which is typically used to fund additional illegal activities including terrorist financing and organized crime

It is the responsibility of National Life Group (the Company) to establish Anti-Money Laundering (AML) policies, procedures and controls for covered products and to integrate essential employees and agents into the program. Covered products include permanent life insurance and annuity products (other than group) and any other insurance product with cash value or investment features.

It is the agent’s responsibility to be familiar with the NLG AML training program and to complete the training every 2 years, understand the various methods of payment accepted by the Company, identify Red Flags, report suspicious activity and perform appropriate recordkeeping.

KNOW YOUR CUSTOMER (KYC)

Because of their direct interaction with customers, agents play an important role in verifying the customer’s identity, identifying the source of funds used to pay for the policy and detecting potential money-laundering. Any activity deemed unusual is to be reported to the Company AML Compliance Officer (see Contact Information below).

METHODS OF CUSTOMER PAYMENT

SOURCE OF FUNDS	COMPANY POLICY
Electronic Funds Transfer (EFT)	Accepted
Pay By Phone	Accepted
Personal or Business checks	Accepted
Wires	Accepted - must be in US Dollars
Agent and/or Agency checks	Prohibited
Cash	Prohibited
Cash Equivalents:	
• Bearer Bonds	Prohibited
• Cashier's and Treasurer's Checks ¹	Accepted - must be purchased directly by customer
• Foreign Currency	Prohibited
• Money Orders ^{1/2}	Accepted - must be purchased directly by customer
• Traveler's Checks	Prohibited

¹ Subject to company approval. Not to exceed \$10,000 in a rolling 12 month period excluding single Cashier's or Treasurer's checks greater than \$10,000

² Except for LSW annuity premiums



CUSTOMER AND TRANSACTION RED FLAGS

- A customer who exhibits a lack of concern for surrender charges;
- A customer who maintains multiple accounts or maintains accounts in the names of family members or corporate entities for no apparent business or other valid reason;
- A customer who wants to pay large premiums in cash and claims to not have a checking account;
- Little or no concern by a customer for the performance of an insurance product, but significant concern about the early termination features of the product;
- A customer that refuses to provide identification documents or appears to give minimal, inconsistent or incorrect information;
- Customers who want to meet at odd hours or refuse to meet at their home or place of employment;
- Customers who pay with wire transfers or checks from multiple accounts or from an unrelated 3rd party;
- The purchase of an insurance product inconsistent with the customer's needs;
- Patterns of surrender of single premium policies during the free look period;
- Patterns of loans on policies, or multiple usage of cash equivalents for premium payments on a policy;
- Account with inflows of funds well beyond the known income or resources of the customer;
- Payment of a large amount broken into small amounts;
- Payments with cash or cash equivalents, especially if broken down into small amounts to avoid the \$10,000 reporting or the \$3,000 recordkeeping requirements;
- High risk businesses that may require additional scrutiny (as identified by the Bank Secrecy Act Anti-Money Laundering Manual): money services businesses, casinos, dealers in precious metals, stones or jewels and cash intensive business (e.g., convenience stores, restaurants and retail stores)

Identification of suspicious activity must be reported to the Company's AML Compliance Officer.

REPORTING REQUIREMENTS

The Company's AML Compliance Officer is responsible for filing Suspicious Activity Reports (SARs) and/or Form 8300 after it is determined that suspicious activity reported meets the requirements for filing.

A **SAR** must be filed by the Company for any transaction that, in aggregate, involves at least \$5,000 in funds, including cash equivalents, if the Company knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is part) falls into one of the following categories:

- Transactions involving funds obtained from illegal activity or intended to hide or disguise funds or assets derived from illegal activity;
- Transactions designed, whether through structuring or other means, to evade reporting requirements or other laws or regulations;
- Transactions that appear to serve no business or apparent lawful purpose or are not the type of transactions in which a particular customer would be expected to engage, and for which the Company knows of no reasonable explanation after examining the available facts; and/or
- Transactions that involve the use of the Company to facilitate criminal activity.

If the Company considers a transaction warrants the direct filing of a SAR, the AML Compliance Officer will make the filing within 30 days of becoming aware of the suspicious transaction. **The filing of a SAR must remain confidential. It is a federal crime to disclose that the filing of a SAR has been or is being considered, or to disclose any content of the SAR to the subject or any third parties.**

Form 8300 may be filed if the receipt of cash or cash equivalents totals more than \$10,000 in one transaction or in two or more related transactions. One lump sum of cash or cash equivalents over \$10,000, two or more related payments that total in excess of \$10,000; or payments received as part of a single transaction (or two or more related transactions) that cause the total cash received within a 12-month rolling period to total more than \$10,000. If deemed appropriate by the AML Compliance Officer, reports must be submitted within 15 days of the date the Company receives the payment that causes the total amount to exceed \$10,000.

RETENTION OF RECORDS

The Company AML Officer will maintain copies of regulatory reports and all related documents for a period of five years from the filing date. The Company recommends that you maintain active client files for as long as the policy can be reinstated and that you maintain surrendered policy and death claim records for six months.

FOREIGN CLIENTS

The Financial Action Task Force on Money Laundering (FATF) is an important inter-governmental body that develops and promotes policies to combat money laundering. The Company is required to block the property of sanctioned persons or entities (Specially Designated Nationals or “SDNs”) and prevent the transfer of assets to SDNs identified by the Office of Foreign Assets Control (OFAC) which are listed at www.treasury.gov/resource-center/sanctions.



PENALTIES

If you suspect a potential problem and continue with the transaction without reporting it to the Company, you may be guilty of “willful blindness” or deliberate ignorance and subject to legal action. If something seems suspicious, report it immediately to the Company’s AML Compliance Officer. Penalties for non-compliance can include civil and/or criminal penalties for individuals and organizations, fines in dollar amounts up to \$1,000,000 or as a multiple of the property involved in the transaction (whichever is greater) and seizure of any property involved.

REPUTATION

The Company is committed to eliminating the potential for money laundering by following established policies and procedures that provide for the proper handling of all cash flow transactions. Violations could result in damage to the Company’s reputation and/or to the agent’s reputation.



CONTACT INFORMATION

Suspicious activity or AML concerns should be directed to Barbara Fitch, AML Compliance Officer at National Life Group (email: NLGcompliance@nationallife.com or phone: 802-229-3129).



CASE STUDIES – TEST YOUR KNOWLEDGE

#1 Change in Payment Behavior – For three weeks in a row a small business owner gave his agent a payment of exactly \$9,500 in money orders to add to his fixed annuity.

- A. Since the insurance company has already deposited the funds, there is nothing further that needs to be done by either the agent or the company.
- B. There is nothing to be concerned about since this is a fixed annuity.
- C. The agent should immediately notify the Company's AML Compliance Officer that this customer has been using cash equivalents, so that the AML Compliance Officer can consider whether this form of payment is acceptable and whether reporting is required.**

#2 High Risk Businesses – a jeweler/precious metal dealer applies for a corporate owned life insurance policy. In accordance with the company's due diligence procedures for owners in high risk businesses, the dealer provides valid articles of incorporation and documents verifying its identity and accurate and complete. The company operations department notices on the first of every month, the agent calls in requesting a loan, which the owner immediately pays back with cash equivalents.

- A. Since the extra due diligence was performed on this business, no action is needed.
- B. The agent should recognize that monthly loans paid back immediately are a red flag and should call the company's AML Compliance Officer.**
- C. The agent should tell the customer to call the company's customer service line to process these loans.

#3 Disregard for Monetary Losses - An annuity owner calls to request a surrender of an annuity, which was held for less than one year. When apprised of the surrender charges and potential losses, the owner indicates that the fees and losses do not matter and to please make the surrender immediately and wire the money.

- A. The agent should tell the customer to send the paperwork directly to the company.
- B. The agent should promptly send in the surrender paperwork and call the Company's AML Compliance Officer.
- C. The agent should call the Company's AML Compliance Officer and await instructions.**

#4 Foreign Clients and Overseas Markets – During a routine review, an agent notifies you that 2 of her clients are currently residing in Sudan. Upon further investigation you learn that the address of record for the policies of both clients is Michigan. According to the agent, one of her clients is currently in Sudan but the owner of the policy resides in Michigan. The other client, who is the owner and Insured of his policy, is also currently living in Sudan. Both policies were issued in the US and premiums are being paid via EFT from a US banks. What action should you take?

- A. Call OFAC and “fess-up” to the fact that your company is in violation of its blocked country statutes. Await pending fines and advise the AML Compliance Officer when this is complete.
 - B. Share the information with the Company’s AML Compliance Officer and await further instructions.**
 - C. Perform enhanced due diligence, crank up the questioning and threaten to terminate her if necessary.
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#5 Know Your Customer – You are the agent and have written an application for insurance on a 25-year old male restaurant owner that you just met. The client provides payment to you in the form of 18 money orders totaling \$9,088, ranging from \$88 to \$1,000 and stated he does not have a checking account. How should you handle this case?

- A. Due to the nature of the premium payment, as well as the admission that the client, a business owner, does not have a checking account, you should contact the Company’s AML Compliance Officer immediately for guidance.**
 - B. Make sure that the premiums are applied to the policy immediately.
 - C. Call the police or the FBI. The earlier we can involve the law enforcement agencies the better.
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#6 Suspicious Transaction Monitoring – Your office receives what appears to be a \$15,000 bank draft from a Bank in the Netherlands. The insured’s name and policy number are written on the check, which appears to be in US Dollars. The name of an international concern is printed toward the bottom of the check. Is there anything unusual about this situation? What should you (or your office) do?

- A. The check should be deposited immediately to avoid foreign exchange rate losses.
 - B. Someone should call the US Treasury Department to see if this is a real check, if it is, then you may tell the administrative staff to deposit it so that you can get your commission.
 - C. Refer the check to the Company’s AML Compliance Officer or the insurance company’s Treasury Department for additional instructions on how to handle the premiums received as foreign currency.**
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