

PEP Screening: A Risk-Based Approach

Identifying, classifying, and managing Politically Exposed Persons — a comprehensive guide to effective PEP screening that balances regulatory compliance with operational efficiency.

Published: February 2026 | 22 pages | PrimeGuardia Research

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1. Who Are Politically Exposed Persons?

A Politically Exposed Person (PEP) is an individual who holds or has held a prominent public position or function, either domestically or internationally. The public nature of their role, combined with the authority and influence it typically confers, creates an elevated risk of involvement in bribery, corruption, and the abuse of public funds.

PEPs are not assumed to be criminals — the vast majority are entirely legitimate. The designation instead signals that a higher level of due diligence is warranted, consistent with the principle that those who exercise significant public authority pose an inherently higher risk of exploiting financial systems for personal gain. The obligation to identify and apply EDD to PEPs is enshrined in FATF Recommendations 12 and 13, and in AML legislation across all major jurisdictions.

■ **Critical Distinction: Being a PEP is not itself a disqualifying factor for a business relationship. The regulatory requirement is to apply Enhanced Due Diligence (EDD) and senior management approval — not to refuse all PEP relationships.**

2. Regulatory Framework

FATF Recommendation 12 requires financial institutions to apply appropriate risk management measures to determine whether a customer or beneficial owner is a PEP. For foreign PEPs (those holding prominent positions in other countries), senior management approval must be obtained before establishing or continuing a business relationship. For domestic PEPs, a risk-based approach determines whether EDD measures are required.

The EU's 4th and 5th AML Directives (4AMLD and 5AMLD) align closely with FATF standards but extend PEP obligations to a broader range of entities, including real estate agents, art dealers, accountants, lawyers, and tax advisors. The UK Money Laundering Regulations 2017 (as amended) impose similar requirements, with JMLSG guidance providing detailed practical interpretation.

3. Categories of PEPs

Heads of State and Government

Presidents, prime ministers, monarchs, and other heads of state and heads of government — typically the highest-risk PEP category due to the breadth of authority exercised.

Senior Politicians and Ministers

Members of parliament, senators, government ministers, party leaders, and regional governors with significant policy or budgetary authority.

Senior Judiciary

Supreme court justices, constitutional court judges, high court judges, and other senior judicial office-holders whose independence from political interference may be limited.

Senior Military Officers

Generals, admirals, and other high-ranking military personnel, particularly in countries where the military exerts significant political or economic influence.

Senior State-Owned Enterprise Executives

CEOs, CFOs, and board members of state-owned or state-controlled enterprises — often overlooked but frequently cited in enforcement

actions for corruption risk.

Senior Ambassadors and Diplomats

Ambassadors, high commissioners, and other senior diplomatic representatives with access to official funds and influence over bilateral relationships.

International Organisation Officials

Senior officials of international bodies such as the UN, World Bank, IMF, WTO, and regional development banks.

4. Close Associates and Family Members

PEP screening obligations extend beyond the named individual. FATF Recommendation 12 and implementing legislation require institutions to identify and apply EDD to close associates and family members of PEPs. This is one of the most practically challenging aspects of PEP screening, requiring access to comprehensive relationship data that is often not publicly available.

Family members typically include: spouses and civil partners; children and their spouses/civil partners; parents; and siblings. Close associates are defined more broadly as individuals with a known close business or personal relationship with the PEP, which can include business partners, advisors, and close friends with shared financial interests.

5. Risk Classification: Tiering Your PEP Programme

Not all PEPs present equal risk. A risk-based PEP programme stratifies PEPs into tiers based on factors including: the seniority and scope of the public role; whether the role is domestic or foreign (foreign PEPs are generally considered higher risk); the jurisdiction's corruption perception index (CPI) score; the PEP's sector of operation (particularly high-risk sectors include construction, extractive industries, and defence procurement); and whether the PEP role is current or former.

Former PEPs — those who have relinquished their public role — present a nuanced challenge. FATF guidance indicates that former PEPs should continue to be treated as PEPs until a risk-based assessment determines that they no longer present an elevated risk. In practice, many institutions apply a 12–24 month monitoring period for former PEPs before downgrading their classification.

6. Enhanced Due Diligence for PEPs

6.1 Source of Wealth Verification

Verifying the source of wealth of a PEP is perhaps the most critical EDD measure. Source of wealth documentation aims to establish how the PEP accumulated their personal assets. Acceptable documentation includes: salary records and employment contracts; inheritance or gift documentation; business ownership and dividend records; and investment portfolios with audited valuations. Crucially, institutions must assess whether the claimed source of wealth is credible and consistent with the PEP's known income and assets.

6.2 Senior Management Approval

For foreign PEPs, FATF requires senior management approval before establishing a business relationship. Organisations must define what

level constitutes 'senior management' for this purpose — typically the MLRO or Compliance Director at minimum, with escalation to the CEO or Board for the highest-risk cases. The approval decision, rationale, and supporting documentation must be retained.

7. Ongoing Monitoring and Derisking Decisions

PEP status evolves with elections, appointments, and career moves. Programmes should re-screen on a risk-based cadence—more frequently for foreign PEPs and high-corruption jurisdictions—and capture employment changes that alter exposure.

Derisking should be a last resort after mitigations fail, not a default reflex. Document why relationship termination is the only viable path (e.g., inability to verify source of wealth, sanctions nexus, or repeated policy breaches) to defend against discrimination or reputational challenges.

8. Technology: PEP Database Selection and Integration

The quality of the underlying PEP database is fundamental to screening effectiveness. Key evaluation criteria for PEP data providers include: coverage breadth (number of countries and positions covered); update frequency (how quickly new appointments and changes are reflected); data depth (whether the database includes close associates, family members, and relationship data); historical coverage (whether former PEPs are retained and for how long); and API integration capability.

PrimeGuardia's PEP database covers 1.5 million+ PEPs and associates across 200+ countries, updated daily, with full close associate and family member mapping. Integrated API access is available at primeguardia.com.

9. Practical Challenges and Solutions

Common pain points include common-name collisions, stale role titles, multilingual scripts, and limited public information on associates. Mitigate with secondary attributes, analyst playbooks, and vendor transparency on data provenance and refresh SLAs.

Where data gaps exist, record the compensating control (e.g., enhanced documentary evidence, stepped-up transaction monitoring) rather than leaving a silent hole in the file.

10. Key Takeaways

- ✓ PEP screening is a mandatory regulatory requirement, not optional compliance hygiene
- ✓ Risk stratification — not blanket EDD — is the regulatory expectation under the Risk-Based Approach
- ✓ PEP obligations extend to close associates and family members, not just the named individual
- ✓ Source of wealth verification is the cornerstone of effective PEP EDD
- ✓ Former PEPs require ongoing monitoring for a risk-based period post-exit from public role

- ✓ Technology selection should prioritise data quality, update frequency, and API integration
- ✓ Senior management approval and documentation are non-negotiable for foreign PEP relationships
- ✓ Regular review and testing of the PEP programme is expected by regulators