INTRODUCTION
1) This evidence is provided following the author’s participation in the recent Foreign Affairs Committee hearing ‘Russian corruption and the UK’ on Wednesday 28 March. It is intended to supplement that evidence by drawing together a number of the finance-related issues that were discussed; and elaborate on some issues that were only tangentially or superficially addressed. It will also reflect on the National Security Capability Review (NSCR, released shortly before the Committee hearing commenced) that is, in part, relevant to the topic under discussion.

2) The author of this submission is the Director of the Centre for Financial Crime and Security Studies (CFCS) at the Royal United Services Institute (RUSI), a donor-funded research institute registered with the Charity Commission for England and Wales (registration number: 210639). RUSI’s CFCS is dedicated to addressing the challenges and effects of financial crime and threat finance to the UK as well as international security.

SUMMARY
3) This submission will cover the following two primary issues as relates to tackling the laundering of the proceeds of corruption through the UK in general, and money originating in Russia in particular:

- The UK’s current capabilities and addressing the status quo
- Strengthening financial defences for the future

4) These points will be expanded on below, but in summary, key to the success of the UK in tackling the abuse of its financial services industry and investment market are resourcing (specifically funding, staffing and technology) and leadership/political will. Despite some welcome steps taken by the current government (for example the introduction of the Criminal Finances Act and greater transparency through the creation of a publicly accessible register of beneficial ownership) and law enforcement (the swift use of Unexplained Wealth Orders – see below – following their introduction in February 2018), these critical ingredients remain lacking.

5) A security threat: the UK government has determined that serious and organised crime is a national security threat; Ben Wallace MP, the Security and Economic Crime Minister has reportedly noted that ‘corruption and organised crime weakened Britain’s defences against terrorism’; and the government has further underlined this position in the recently published National Security Capability Review stating that ‘We will take a whole-of-government approach to disrupting high-harm organised crime groups and corrupt elites’, yet the evidence suggests that to-date, the rhetoric has not been matched by action in the form of a genuine commitment of resources, leadership and political will.
6) As the author has written elsewhere, a failure to invest in the UK’s capability over many years, coupled with a light-touch approach to regulation and a belief that ‘The UK has a long history of benefiting from over-regulation elsewhere’ have combined to lay out the welcome mat for those wishing to hide and launder illicit finance in the UK.

7) As a result, successive governments have painted themselves into a corner as the robust measures that are now needed to reverse this 20+ year legacy will inevitably cause economic harm to certain UK industries and economic interests and certain jurisdictions (specifically Overseas Territories) for which the UK is responsible.

8) In the specific case at hand, the government has clearly worked rapidly and effectively to garner diplomatic support for its position on the recent poisoning in Salisbury – many countries have followed the UK’s lead in expelling Russian diplomats.

9) If, as appears to be the case, the government believes that targeting finances is a further means by which the international community can express its views on the ‘warlike act’ of the Kremlin, what is needed now is a similarly coordinated financial response with other global financial centres if the aim is to restrict Russian access to capital and investment markets (unilateral action by the UK, as suggested by the Chair, would simply displace activity to other capital markets).

10) The US has already gone further than simply expelling diplomats (albeit not referencing the Salisbury attack specifically), taking advantage of its CAATSA legislation in response to ‘worldwide malign activity’ by Russian nationals to impose financial sanctions on a range of high profile, Kremlin-connected individuals, noting that ‘Russian oligarchs and elites who profit from this corrupt system will no longer be insulated from the consequences of their government’s destabilizing activities.’ The UK must determine how to demonstrate similar, financial resolve.

11) But that is merely a near-term, reactive action. The government should take this opportunity to realise that its financial defences, its national financial situational awareness, and its financial security strategy are highly deficient; as it says itself, the government must treat the issue of serious and organised crime and abuse of the UK system by corrupt elites as a key national security issue – in actions as well as words.

12) Taking active steps to understand the financial landscape, identify bad actors, and resource government agencies to take enforcement action against corrupt elites, organised crime groups and those that enable their financial activity will create a virtuous circle of deterrence.

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1 Countering America’s Adversaries Through Sanctions Act
ANALYSIS

13) The summary section proposes that two key areas – addressing the status quo and strengthening financial defences for the future – underpinned by resources, leadership and political will, must be developed and strengthened.

Addressing the status quo

14) A range of assessments by law enforcement, journalists and NGOs provide an insight into the extent to which illicit finance is present in or facilitated by the UK. The variation in these analyses suggests that the understanding of the problem is deficient and incomplete. What all agree on, however, is that there is a material problem. Our inability to appropriately quantify and assess this problem points to a key issue that needs to be addressed – there is a dearth of intelligence, understanding and situational awareness as relates to UK-enabled illicit finance. Until we understand where we are, we will not be able to figure out where we are trying to go.

15) Particular areas that should be urgently considered to assist with developing situational awareness include the following:

- **Investor visas** have been questioned on a number of fronts. Clearly applications need to be scrutinised more closely; the funds that underpin the applications need to be assessed (are they ‘clean’, are they borrowed, do they represent genuine or ‘manufactured’ wealth?); and those who apply for such visas should be treated in the same way as ‘politically exposed persons’ by banks and other regulated entities, in other words subject to enhanced due diligence. The government should help the financial sector in this regard by providing the names of such individuals. Concerns about privacy have previously restricted such cooperation from occurring, however the information sharing gateway provided to the Joint Money Laundering Intelligence Taskforce under Section 7 of the Crime and Courts Act offers an ideal mechanism for transferring this information to the banking community.

- **Property**: this issue has been covered extensively by NGOs such as Transparency International. The government has committed to create a registry of overseas companies owning UK properties. As others have noted, the delay in bringing forward this measure is regrettable.

- **Other high-value luxury items**: super-yachts/motor cruisers, top-end artwork and jewellery are popular with those seeking to deploy their significant wealth. Whilst it would be wrong to suggest that all such purchases are made from questionable sources of wealth, there is no doubt that those with significant illicit funds to spend enjoy making such purchases. Many vendors of such items pride themselves on discretion; the source of funds is of secondary importance. Vendors of such high-value luxury items should feel greater accountability for the source and integrity of the funds used to purchase their products. Relying on the banks that make the payments – as many such vendors do – to confirm the validity of funds should not be the sole check undertaken.
• **Private school fees:** as with other high-value luxury items, private schools in the UK, the destination of choice for the children of many foreign ‘elite’ seeking respectability, must increase their awareness of the extent to which they may be receiving payments from illicit funds.

16) At present, it is generally left to the banking sector to determine the extent to which funds are clean or corrupt. **Whilst the banks should clearly continue to conduct due diligence to ensure they are satisfied as to the integrity of their clients and their funds, those involved in industries beloved of corrupt elites should take greater responsibility for ensuring that payments they receive are appropriate.**

17) In addition to strengthening the status quo by more effectively restricting the opportunities afforded by the UK for the expenditure and investment of corrupt funds, three further issues should be considered:

• **The UK supervisory landscape is highly fragmented:** standards across the UK supervisory landscape vary considerably from statutory bodies such as the FCA and HMRC to professional body supervisors (covering, in particular, lawyers and accountants). The result is an inconsistent level of supervision with different bodies placing differing levels of scrutiny (and therefore enforcement) on the entities subject to their oversight. This issue is the subject of a recently published RUSI Occasional Paper, ‘Known Unknowns: Plugging the UK’s Intelligence Gaps on Money Laundering Involving Professional Services Providers’ and will be covered in greater detail in the CFCS submission to the Treasury Select Committee enquiry on ‘Economic Crime’.

• **The use of Unexplained Wealth Orders:** introduced via the Criminal Finances Act 2017, since February 2018 these instruments have been available to law enforcement and have already been applied for in **two cases**. This tool has been referred to extensively by MPs and advocacy organisations, so will not be expanded upon here other than to underline the fact that this tool cannot be used indiscriminately. This is a valuable tool, but we should be clear as to **the circumstances under which they may be applied for:** (a) in cases where there is reasonable suspicion of serious criminality, or (b) where those under suspicion are ‘politically exposed persons’ from outside the European Economic Area, in which case no suspicion of serious criminality is required. This means that they cannot be deployed ‘at will’; they apply in specific circumstances and the courts must be persuaded that their use is appropriate.

• **The vulnerability of Overseas Territories:** the continued appearance of UK Overseas Territories at the centre of illicit finance revelations is a matter that the UK government can no longer ignore. The sense from ministerial rhetoric is that there is nothing much Westminster can do to bring the OTs into line with global expectations on transparency. This seems to stem from a combination of a lack of willingness to exert influence over the OTs and a recognition that a number of OTs thrive on the financial business they attract. The result is that the **OTs seemingly have a free reign to benefit from their association with the UK without adhering to the expectation and standards increasingly required of those operating within the UK itself.**
Strengthening financial defences for the future

18) As noted above, the British government has taken steps over the past 2-3 years – primarily via the Criminal Finances Act – to strengthen the UK’s capabilities for tackling existing financial crime.

19) However, in order to strengthen the nation’s financial defences for the future, greater national financial situational awareness is needed. Countries such as Australia and Canada gather far more financial security data than the UK. The UK has a limited database on which to draw, created by the filing of Suspicious Activity Reports by banks and other regulated entities. The technological short-comings of this system have been well documented and scrutinised and the latest attempt at a reform programme is underway. But these data are provided by the regulated sector on the basis of what they view as suspicious – this database is therefore inevitably incomplete.

20) In contrast, peer countries such as Australia and Canada gather data related to all transactions above a certain amount as well as data related to all wire transactions that cross the national border, into and out of the country. The UK does not do this and thus misses out on a significant opportunity to build a strategic intelligence picture of the financial flows that are facilitated by the UK.

21) Furthermore, the lack of analytical and intelligence capacity within the financial crimefighting architecture of the UK means that the UK is unable to develop the sort of strategic financial plan that peer countries have developed.

22) For a country that plays such a critical role in global finance, this would appear to be at best a missed opportunity and at worst irresponsible.

23) Taking active steps to understand the financial landscape, identify bad actors, and resource government agencies to take enforcement action against corrupt elites, organised crime groups and those that enable their financial activity will create a virtuous circle of deterrence.

CONCLUSION

24) The recently published National Security and Capability Review dedicates an entire section to ‘Serious and Organised Crime’, committing to ‘….take a whole-of-government approach to serious and organised crime, including a new intelligence framework, better community engagement and a National Economic Crime Centre in partnership with the private sector’.

25) Such a commitment is to be welcomed, but coordination and the creation of new acronyms via the seconding of staff from across government into new bodies is only part of the solution. There is no mention of additional funding for tackling serious and organised crime as relates to corrupt elites in the NSCR (although the NSCR does highlight other areas that have received additional funds).
26) The poisoning attack in Salisbury should be a ‘financial call to action’ for the government to (a) address status quo weaknesses, and (b) strengthen the nation’s financial defences for the future, underpinned by resources, leadership and political will.

27) If the government is serious about the commitments it is making then a proper intelligence and analysis-led strategy is required that includes funding, resources and technology.

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