



# PARADISE LOST

Ending the UK's role as a safe haven for corrupt individuals, their allies and assets

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Acknowledgements: We would like to thank all those who contributed to this report, particularly the Network for Social Change and The Joffe Charitable Trust for their generous financial support to make the research possible.

We are grateful for the support and guidance of our research advisory committee: Jeff Kaye (CHAIR); Cynthia O'Murchu; Laurence Cockcroft; Charles Hecker; Dr Bill Peace and Stuart McWilliam. We would also like to thank Casey Kelso, Craig Fagan, Max Heywood and Maggie Murphy at the TI-Secretariat for their support, advice and comments on various drafts of the report; and Lloyd Barthropp for his significant contribution to the research in its early stages.

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Published April 2016. ISBN: 978-1-910778-51-7

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Printed on 100 per cent recycled paper.

Transparency International UK's registered charity number is 1112842.

# Paradise lost

Ending the UK's role as a safe haven for corrupt individuals, their allies and assets

# Introduction

The UK is a prime destination for corrupt individuals looking to invest or launder the proceeds of their illicit wealth, enjoy a luxury lifestyle and cleanse their reputations.

Trillions of pounds flow through the UK financial system each year. Inevitably some of these transactions involve corrupt wealth, yet many are given a seal of approval by passing through the UK and its associated territories. Once the money is clean, the UK offers ample opportunity for corrupt individuals to enjoy it: high-end property, sports clubs, legitimate businesses, expensive cars, yachts, jewellery and art can all be purchased, allowing corrupt individuals to enjoy luxurious lifestyles. With the help of defamation lawyers and PR experts they can start their life afresh, and embed their children in society's élite through exclusive education and mixing in the right social groups.

However, facilitating global corruption comes at a cost, both to the country where it occurs and to the UK. Corrupt politicians, public officials and businesspeople worldwide abuse their positions to steal public funds or receive bribes for contracts. This degrades the level of public services, hinders development and causes insecurity. When this corrupt money enters the UK, it has the potential to inflate house prices, increase inequality, and affect communities, public institutions and all those who have contact with illicit funds.

Both the government and law enforcement agencies recognise that the UK is at significant risk from corrupt individuals seeking to launder their wealth. Money laundering and corruption have been identified as high priority threats in the National Crime Agency's (NCA) national control strategy,<sup>1</sup> the UK Government's strategic defence and security review,<sup>2</sup> its National Risk Assessment of Money Laundering and Terrorist Financing,<sup>3</sup> and its overseas development aid strategy.<sup>4</sup>

The Government has taken a number of steps to help protect the UK from illicit wealth. It has produced the UK's first anti-corruption plan,<sup>5</sup> moved the UK towards greater company ownership transparency, is examining how to strengthen private sector defences against money laundering and will be hosting a global anti-corruption summit in May 2016 in London. However, it still needs to turn talk into action by extending company ownership transparency to the Overseas Territories and Crown Dependencies, where a significant proportion of 'anonymous' companies are registered; giving law enforcement agencies sufficient tools to freeze, recover and accountably repatriate corrupt assets; and strengthen the UK's safeguards against corrupt money entering the country.

We are at a major crossroads in the fight against corruption. Governments from across the globe are starting to take action against what the Prime Minister, David Cameron, has described as "the cancer at the heart of so many of the world's problems."<sup>6</sup> It is vital that this and future UK governments ensure they continue on the road to creating a world with no impunity for those who misuse the power entrusted to them for their private gain.

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<sup>1</sup> NCA, *National Strategic Assessment of Serious and Organised Crime 2015* (June 2015) p.5  
<http://www.nationalcrimeagency.gov.uk/publications/560-national-strategic-assessment-of-serious-and-organised-crime-2015/file>

<sup>2</sup> HM Government, *National Security Strategy and Strategic Defence and Security Review 2015*, Cm 9161 (November 2015) p.17  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/478933/52309\\_Cm\\_9161\\_NSS\\_SD\\_Review\\_web\\_only.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478933/52309_Cm_9161_NSS_SD_Review_web_only.pdf)

<sup>3</sup> HM Government, *National Risk Assessment on Money Laundering and Terrorist Financing* (October 2015) p.3

<sup>4</sup> HM Treasury and Department for International Development, *UK aid: tackling global challenges in the national interest* Cm 9163 (November 2015) p.13  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/478834/ODA\\_strategy\\_final\\_web\\_0905.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478834/ODA_strategy_final_web_0905.pdf)

<sup>5</sup> HM Government, *UK Anti-Corruption Plan* (December 2014)  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388894/UKantiCorruptionPlan.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388894/UKantiCorruptionPlan.pdf)

<sup>6</sup> <https://www.gov.uk/government/speeches/tackling-corruption-pm-speech-in-singapore> [Accessed: 10 March 2016]



# Recommendations

## **Recommendation 1: Overhaul the supervisory regime for the UK's Anti-Money Laundering (AML) rules, notably for professional enablers**

The UK Government should consolidate the patchwork of AML supervisors and consider introducing a single 'super-supervisor'. It should also ensure supervisors meet the good practice standards of transparent enforcement, risk-based regulation, the separation of commercial and regulatory interests, and guaranteeing that the UK is effectively implementing the Financial Action Task Force (FATF) standard regarding professional enablers.

## **Recommendation 2: Ensure adequate levels of enforcement against money laundering**

AML supervisors should have adequate resources and tools to provide a credible deterrent against money laundering, including punitive sanctions and personal liability for professional enablers with regard to AML failings.

## **Recommendation 3: Prosecute and de-license professional enablers**

The UK Government should establish more effective administrative sanctions on professional enablers by encouraging professional bodies to withdraw professional licenses from those implicated in cases of money laundering, in addition to prosecuting those who are personally involved.

## **Recommendation 4: Extend corporate beneficial ownership transparency**

The UK Government should introduce legislation that would require foreign companies wishing to purchase UK property or bid for public contracts to disclose their beneficial owners.

## **Recommendation 5: Ensure the UK's Overseas Territories and Crown Dependencies introduce centralised public registers of beneficial ownership**

The beneficial ownership standards in the UK's Crown Dependencies and Overseas Territories should be brought in line with those in the UK: there should be central, public registers of beneficial ownership to allow investigations, public scrutiny and accountability. The UK Government should proactively assist with implementing these registers as a matter of priority.

## **Recommendation 6: Act on unexplained wealth by increasing the capabilities of the UK's asset recovery system to seize corrupt funds**

To recover more stolen assets, the UK Government should introduce legislation containing powers for issuing Unexplained Wealth Orders. This civil mechanism would allow for easier and quicker freezing of corrupt assets without relying on predicate offences in foreign jurisdictions or assistance from uncooperative origin states. Consideration should also be given to a new law on Illicit Enrichment.

## **Recommendation 7: Develop accountable asset recovery agreements with cooperative jurisdictions**

The UK Government should work with countries to achieve 'accountable' and transparent asset recovery against corrupt fugitives in the UK. These should enshrine effective intelligence sharing, civil recovery, and accountable and transparent asset repatriation.

## **Recommendation 8: Prevent corrupt individuals entering the UK and laundering their funds through the Tier 1 (Investor) visa system**

The Home Office should bring full transparency to the Tier 1 (Investor) visa system, with public disclosures of who is investing, how much they are investing, what they are investing in and their financial interests and assets. Upfront declarations should be required for Politically Exposed Persons and public officials who should expect to meet a high level of transparency, even after they have left office. Retrospective checks should be undertaken on historical Tier 1 (Investor) visas that were granted in the 'blind faith' period and consideration given to publishing their details.

# 1. Money Laundering in the UK

## Defining money laundering

Money laundering is the process of concealing the origin, ownership or destination of illegally or dishonestly-obtained money by hiding it within legitimate economic activities in order to make it appear legal. It can mask corruptly acquired wealth – such as bribes, kick-backs, illicit political contributions, embezzled funds and loans – as well as the proceeds of other crimes. It helps corrupt individuals to escape justice and, after the funds have been successfully laundered, they can enjoy their illicit wealth or move the money on for other purposes.

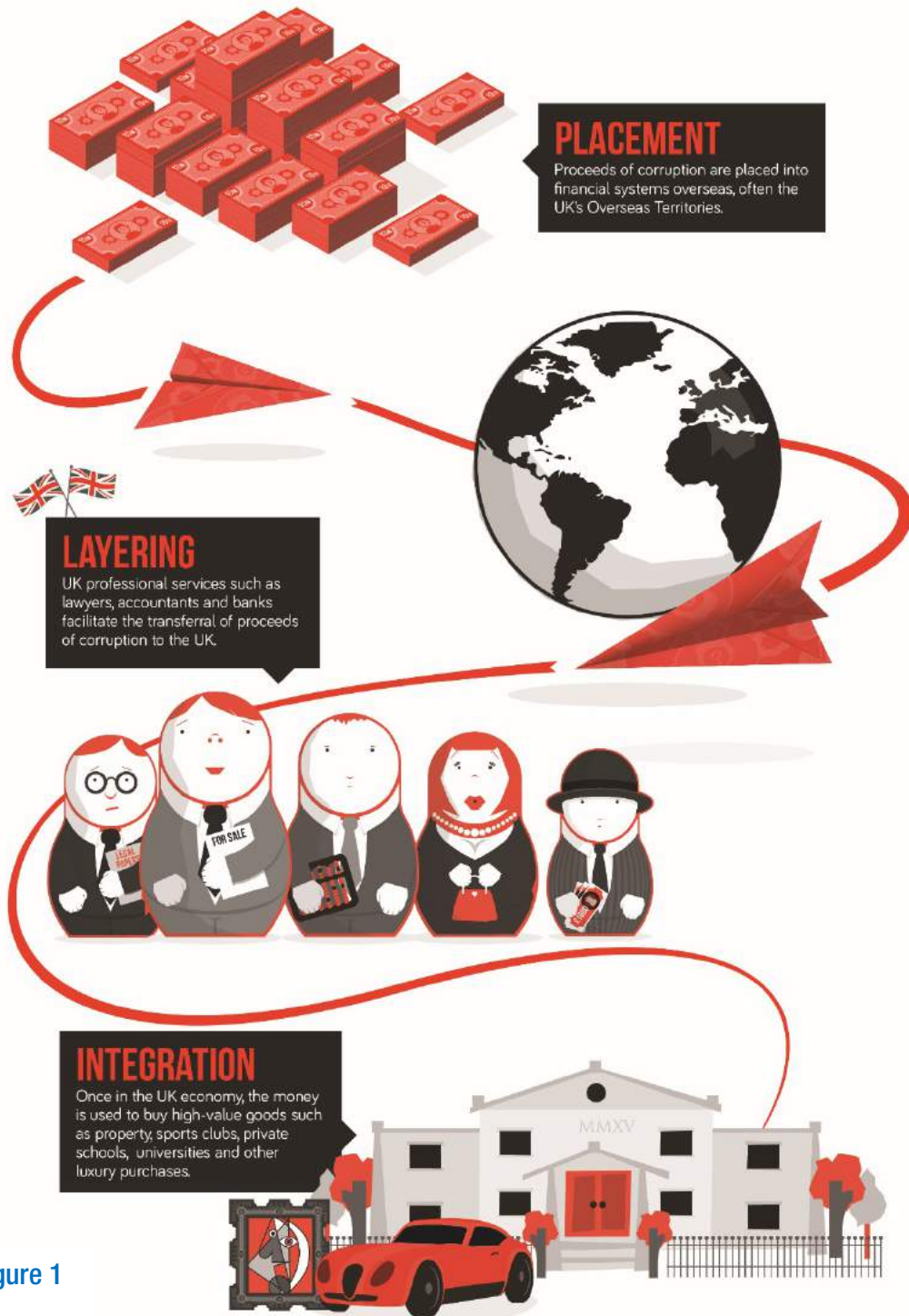


Figure 1

## How money is laundered

In basic money laundering schemes, stolen funds enter a financial system in some form (known as 'placement') and are re-injected into the legal market after having gone through a series of financial transfers (the 'layering' phase) that conceals their origin and beneficial owner (see Figure 1 on page 4). Once illicit funds have undergone the process of layering – which can include the use of anonymous corporate structures in secrecy jurisdictions – detecting the origin of the money is extremely difficult. Legitimate assets are then acquired at the last stage of the laundering scheme (known as 'integration'). Popular assets used to integrate laundered money into the legal market include property, luxury goods, high value art and antiques.

## The role of professional enablers

Most money laundering systems rely on professional enablers who knowingly or unwittingly assist in the layering and integration phases. In the UK, these enablers are typically lawyers, accountants and company-formation agents known as Trust and Company Service Providers. Money laundering is also facilitated by the availability of high-end investment and spending opportunities, which range from property to private education. Although many of these professional enablers are subject to anti-money laundering rules, it is important to note that money laundering is a threat beyond these regulated sectors. When it happens outside these regulated sectors, for example through spending on education or PR agencies, the national defences against money laundering are simply by-passed.

## The scale of the problem

Measuring the exact scale of illicit wealth entering the UK is extremely difficult and disaggregating corrupt funds even more so. The cross-border flows of illicit wealth are clandestine in nature, meaning they are almost impossible to detect. Whilst a number of methods are used to try and calculate the scale of money being laundered into the UK, estimates remain varied. The NCA assess that **tens to hundreds of billions of pounds worth of corrupt and illicit funds are laundered through the UK each year.**<sup>7</sup> Although the margin of error is very large, even the most conservative estimates indicate it is a massive problem.

The UK financial system represents an attractive prospect to those seeking to launder their money for a number of reasons:

- **Global financial hub:** the sheer volume of financial transactions makes it easier to hide suspicious activity.
- **Offshore jurisdictions:** the UK has unparalleled links, for historical reasons, with offshore jurisdictions, whose secrecy enables money to be hidden more easily.
- **Stability and security:** it represents a safe investment opportunity both to legitimate business and corrupt individuals, with secure property rights and a stable political environment.
- **Professional competence:** the UK has a vast network of well-qualified professionals who can facilitate transactions of any type.
- **Lifestyle:** the UK enables individuals to merge easily into a global élite, cleansing their reputations and buying respectability for the next generation.
- **Property market:** high property prices allow corrupt individuals to launder large sums of money within a single purchase and there are currently loopholes in buyers' source of wealth checks.

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<sup>7</sup> <http://uk.businessinsider.com/the-national-crime-agency-fatf-london-money-laundering-2016-1> [Accessed: 24 February 2016]

## Loopholes in the UK anti-money laundering system

Weaknesses in the UK's anti-money laundering (AML) system make it vulnerable to corrupt money flowing into the economy. At the heart of the problem is the fact that the UK has 27 supervisory bodies – mostly private sector institutions – overseeing AML efforts in sectors such as banking, property and luxury goods. This patchwork of supervisors results in a system which is structurally unsound and presents an inconsistent, unclear and unhelpful environment for businesses that are intending to abide by the rules.

Our research on AML supervisors has found:

- There is a failure to identify where money laundering **risks** are and mitigate against those risks. In the 2012 to 2013 supervision report by HM Treasury, over half of all supervisors reported that money laundering risks did not vary across the firms they supervise, regardless of size, commercial focus or historic money laundering focus.<sup>8</sup> This limits their ability to target resources where they may have the biggest impact.
- The approach to **enforcement** is inconsistent, opaque and ineffective. No supervisor appears to be providing a proportionate and credible deterrent to those complicitly or wilfully engaging in money laundering.
- Many of the supervisors hold serious **conflicts of interest**. This prohibits them from doing a good job. Only seven out of the 22 supervisors overseeing high money laundering risk sectors control for institutional conflicts of interest.<sup>9</sup> Most of these private sector supervisors are both lobbying and promotional bodies for their sector as well as the AML enforcement authority.
- Private sector **detection** appears to be inadequate. Banks and other private sector institutions, assisted by professional intermediaries such as lawyers and accountants, are the front line in detecting and reporting suspicious transactions. However, their reporting of suspicious activity needs improving.

### Sector focus

- A third of banks dismissed serious money laundering allegations without adequate review.<sup>i</sup>
- In the accountancy sector, at least 14 different supervisors have some responsibility – leading to widespread inconsistency and variations in practice.<sup>ii</sup>
- In property, only 179 cases were deemed suspicious by estate agents in 2013/14.<sup>iii</sup>
- Just 15 suspicious cases were reported through art and auction houses in 2013/14 (0.004 per cent of the total).<sup>iv</sup>
- 42 per cent of the most serious type of reports of suspicious activity in the legal sector were assessed to be poor quality or incomplete.<sup>v</sup>

<sup>i</sup> FSA, *Banks' management of high money-laundering risk situations* (June 2011) p.4 [http://www.fsa.gov.uk/pubs/other/aml\\_final\\_report.pdf](http://www.fsa.gov.uk/pubs/other/aml_final_report.pdf)

<sup>ii</sup> Transparency International, *Don't Look, Won't Find* (November 2015) p.41 <http://www.transparency.org.uk/publications/dont-look-wont-find-weaknesses-in-the-supervision-of-the-uks-anti-money-laundering-rules/>

<sup>iii</sup> Transparency International, *Don't Look, Won't Find* p.52

<sup>iv</sup> <http://www.ft.com/cms/s/2/a91a1608-d887-11e4-8a23-00144feab7de.html?segid=0100320#axzz3WnWs5czy> [Accessed: 29 June 2015]

<sup>v</sup> HM Government, *National Risk Assessment* p.45

## Recommendations

### Overhaul the UK's anti-money laundering system to make it fit for purpose

#### Recommendation 1: Overhaul the supervisory regime for the UK's Anti-Money Laundering rules

The UK Government should consolidate the patchwork of AML supervisors and consider introducing a single 'super-supervisor'. It should also ensure supervisors meet the good practice standards of transparent enforcement, risk-based regulation, the separation of keeping commercial and regulatory interests, and guaranteeing that the UK is effectively implementing the Financial Action Task Force (FATF) standard regarding professional enablers.

<sup>8</sup> <https://www.gov.uk/government/publications/anti-money-laundering-and-counter-terrorist-finance-supervision-reports/anti-money-laundering-and-counter-terrorist-finance-supervision-report-2012-13> [Accessed: 11 March 2016]

<sup>9</sup> Transparency International UK, *Don't Look, Won't Find* p.26



## Recommendation 2: Ensure adequate levels of enforcement against money laundering

AML supervisors should have adequate resources and tools to provide a credible deterrent against money laundering, including punitive sanctions and personal liability for professional enablers with regard to AML failings.

## Recommendation 3: Prosecute and de-license professional enablers

The UK Government should establish more effective administrative sanctions on professional enablers by encouraging professional bodies to withdraw professional licenses from those implicated in cases of money laundering, in addition to prosecuting those who are personally involved.

# 2. Anonymous Companies

Corrupt individuals can easily hide their identities, making it difficult for law enforcement agencies and others to detect or prove the origins of their illicit wealth. They often use complex webs of opaque corporate structures to launder their money through the UK. These legal entities, like companies or trusts, can be created in a matter of hours and used to conceal the real owner of funds being moved around the world.

There is a very clear correlation between corruption cases and the use of these secretive corporate vehicles. In 2011, a World Bank study found that **70 per cent of over 200 corruption cases involved the use of anonymous shell companies** to launder funds and conceal the true identity of corrupt politicians.<sup>10</sup> Anonymous companies are also used to launder corrupt and illicit funds into the UK. Transparency about the beneficial owners of these companies has been identified as an important part of the solution to tackling the laundering of corrupt and illicit funds.

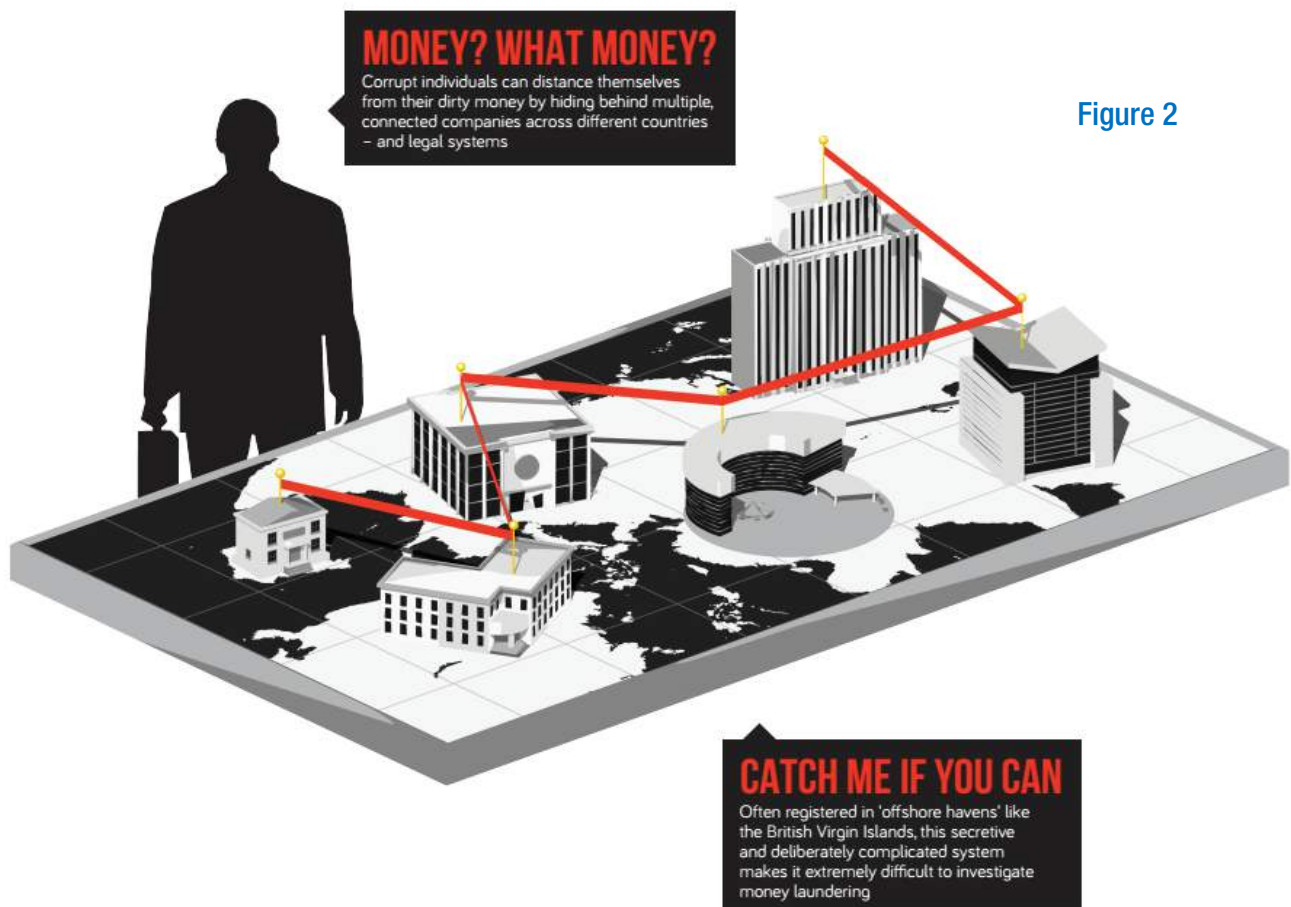


Figure 2

<sup>10</sup> Transparency International UK, *Corruption on your doorstep: how corrupt capital is used to buy property in the UK* (February 2015) p.5 <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/>

## Role of the UK Overseas Territories and Crown Dependencies

In the UK, **over 75 per cent of corruption cases involving property** investigated by the Metropolitan Police's Proceeds of Corruption Unit (POCU)<sup>11</sup> involved anonymous companies registered in 'secrecy jurisdictions'.<sup>12</sup> Of these, **78 per cent of the companies involved were registered in either the UK's Overseas Territories or Crown Dependencies**.<sup>13</sup>

These jurisdictions are used because they specialise in providing secrecy. Currently, only a few of these countries require the names of companies' beneficial owners to be collected on a central register. A fraction of these registers are open to the public or provide instant access for law enforcement agencies. This means there is very little information about the true owners of companies registered in most of the Overseas Territories and Crown Dependencies.<sup>14</sup>

### Property as a money laundering vehicle

Our report, *Corruption on Your Doorstep*, confirms that buying property is one of the money laundering methods of choice for corrupt individuals. Between 2004 and 2014 the Metropolitan Police's POCU, now the International Corruption Unit (ICU) operating within the NCA, revealed £180m worth of property was under investigation as being the proceeds of corruption.<sup>i</sup> However, the number of properties identified as suspected proceeds of corruption has been referred to by the NCA as only the 'tip of the iceberg'<sup>ii</sup>, with the UN also estimating that only 1 per cent of laundered money is actually detected.<sup>iii</sup> With this in mind, the UK has a sizeable problem with corrupt wealth being invested in the property market.

### Scale of risk in the UK

Our research shows that over 36,000 properties in London are owned by companies registered in offshore jurisdictions. Almost 10 per cent of properties in Westminster are owned by anonymous companies.<sup>iv</sup> According to additional analysis of Land Registry holdings by the Financial Times, at least £122bn worth of property in England and Wales was held via companies registered in secrecy jurisdictions in July 2014.<sup>v</sup> This is likely to be an underestimate as many titles in the Land Registry held by offshore entities include no record of the price paid for the property.

<sup>i</sup> Transparency International UK, *Corruption on your doorstep* p.3

<sup>ii</sup> Transparency International UK, *Corruption on your doorstep* p.13

<sup>iii</sup> UNODC, *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes* (October 2011) [http://www.unodc.org/documents/data-and-analysis/Studies/Illicit\\_financial\\_flows\\_2011\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf)

<sup>iv</sup> *Corruption on your doorstep: how corrupt capital is used to buy property in the UK* (February 2015) p.16

<sup>v</sup> <https://next.ft.com/content/6cb11114-18aa-11e4-a51a-00144feabdc0> [Accessed: 29 March 2016]

## Recommendations

### Extend beneficial ownership transparency to reduce the UK's role as a corruption safe haven

#### Recommendation 4: Extend corporate beneficial ownership transparency

The UK Government should introduce legislation that would require foreign companies wishing to purchase UK property or bid for public contracts to disclose their beneficial owners.

#### Recommendation 5: Ensure the UK's Overseas Territories and Crown Dependencies introduce centralised public registers of beneficial ownership

The beneficial ownership standards in the UK's Crown Dependencies and Overseas Territories should be brought in line with those in the UK: there should be central, public registers of beneficial ownership to allow investigations, public scrutiny and accountability. The UK Government should proactively assist with implementing these registers as a matter of priority.

<sup>11</sup> Now the International Corruption Unit (ICU) operating within the NCA.

<sup>12</sup> Transparency International UK, *Corruption on your doorstep* p.3

<sup>13</sup> Transparency International UK, *Corruption on your doorstep* p.13

<sup>14</sup> Christian Aid, Global Witness, Transparency International UK and Tax Justice Network, *The UK's corruption problem* (November 2015) p.6 <http://www.transparency.org.uk/publications/the-uks-corruption-problem/>

### 3. Ineffective Asset Recovery

Major changes are needed if the UK is to detect, freeze, seize and accountably repatriate corruptly-obtained assets that are invested in the UK. Only a handful of suspicious transactions and assets related to ‘grand corruption’<sup>15</sup> have been frozen in the UK and the return of these assets is at an even lower level. To find out why, we assembled a Taskforce from across academia, the legal profession and the law enforcement community. They identified a number of problems with the UK’s asset recovery regime:

- **Low levels of asset recovery:** in 2014, the Organisation for Economic Cooperation and Development (OECD) and the Stolen Assets Recovery initiative (StAR) published statistics which indicated **the UK was freezing on average US\$225.5 million of corrupt funds per year**.<sup>16</sup> When compared to NCA estimates of billions being laundered, this is clearly a drop in the ocean.
- **Insufficient resources for law enforcement:** in 2014 the NCA received **94 consent suspicious activity reports (SARs) relating to grand corruption**, but they were only able to prevent seven of these transactions being completed, primarily due to time and resource constraints.<sup>17</sup>
- **Inadequate time to investigate suspicious transactions:** the ‘moratorium period’ of 31 days for law enforcement agencies to respond to suspicious activity reports is generally inadequate for them to investigate and achieve asset restraint for cases involving grand corruption.
- **Existing tools are under-used:** the UK has powerful civil powers for recovering assets where the standard of proof is based on ‘the balance of probability’, which is lower than the criminal standard of ‘beyond reasonable doubt’. However, the Taskforce only identified one case of this seizure option being used in the UK to target corrupt assets, which was *SOCA v Agidi*.<sup>18</sup>
- **The current framework for asset recovery is overly reliant on a conviction in the origin country:** UK authorities rely on a conviction in the origin state before they are willing or able to seize assets. This is producing a mere trickle of results against a torrent of corrupt illicit funds.

The Taskforce assessed the feasibility of introducing a civil tool to support asset recovery in cases involving the proceeds of grand corruption – an Unexplained Wealth Order (UWO). Suspects issued with a UWO would be required to explain legitimate and legal sources of wealth for suspicious UK assets or transactions, provided there was enough initial suspicion of criminality.

If the trigger for the UWO was a suspicious activity report, then the timeframe for refusing consent for a suspicious transaction would be paused while the UWO was being responded to. Failure to respond to a UWO, or an inadequate response, together with the initial grounds for suspicion, could then be used to facilitate a civil recovery process against the asset.

Consideration was also given as to whether there should be a criminal illicit enrichment offence as referenced in Article 20 of the United Nations Convention against Corruption (UNCAC).<sup>19</sup> The Taskforce felt that while such legislation would give additional strength to a UK asset recovery regime, in the short term it would be more viable to pursue a civil option.

Alongside these considerations, we have identified the need for an improvement in international cooperation and coordination between countries to ensure that corrupt assets are recovered and returned to where they were stolen from. This includes overcoming a lack of coordination between law enforcement agencies, which can hamper information sharing and collaboration, and human rights considerations, for example, if cooperation with a country resulted in the suspect being sentenced to capital punishment.

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<sup>15</sup> We define this as the abuse of high-level power that benefits the few at the expense of the many [https://www.transparency.org/glossary/term/grand\\_corruption](https://www.transparency.org/glossary/term/grand_corruption) [Accessed: 11 March 2016]

<sup>16</sup> OECD, *Illicit Financial Flows from Developing Countries: Measuring OECD Responses* (2014) p.88 [http://www.oecd.org/corruption/Illicit\\_Financial\\_Flows\\_from\\_Developing\\_Countries.pdf](http://www.oecd.org/corruption/Illicit_Financial_Flows_from_Developing_Countries.pdf)

<sup>17</sup> NCA, *Suspicious Activity Reports (SARs) Annual Report 2014* (2014) <http://www.nationalcrimeagency.gov.uk/publications/464-2014-sars-annual-report/file>

<sup>18</sup> <http://www.lexology.com/library/detail.aspx?g=38f51381-802a-462c-8db8-bcdcaa661784> [Accessed: 29 March 2016]

<sup>19</sup> [https://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026\\_E.pdf](https://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf) [Accessed: 30 March 2016]

## Recommendations

**Enhance the asset recovery regime to allow for fast, effective and accountable return of assets to the country of origin**

**Recommendation 6: Act on unexplained wealth by increasing the capabilities of the UK's asset recovery system to seize corrupt funds**

To recover more stolen assets, the UK Government should introduce legislation containing powers for issuing Unexplained Wealth Orders. This civil mechanism would allow for easier and quicker freezing of corrupt assets without relying on predicate offences in foreign jurisdictions or assistance from uncooperative origin states. Consideration should also be given to a new law on Illicit Enrichment.

**Recommendation 7: Develop accountable asset recovery agreements with cooperative jurisdictions**

The UK Government should work with countries to achieve 'accountable' and transparent asset recovery against corrupt fugitives in the UK. These should enshrine effective intelligence sharing, civil recovery, and accountable and transparent asset repatriation.

## 4. Ease of Access to the UK for Corrupt Individuals

Corrupt individuals can use the UK's Tier 1 (Investor) visa system – otherwise known as *Golden Visas* – to secure residency in the UK, thereby receiving an implicit endorsement of their money's legitimacy from the UK state. Migrants who invest £2 million into the UK economy under the scheme can apply for permanent residency after five years. By investing £5 million the waiting time can be reduced to three years, and those investing £10 million can be awarded permanent residency after two years.<sup>20</sup>

Our research paper, *Gold Rush: Investment visas and corrupt capital flows into the UK*, provides an in-depth review into weaknesses in the Tier 1 (Investor) visa system.<sup>21</sup>

There are a number of problems with this system which leave it vulnerable to abuse from corrupt individuals.

Despite the clear risk of money laundering through the Tier 1 (Investor) visa process, there is no dedicated system of money laundering or 'fit and proper' person checks for applicants. The Home Office primarily relies on the effective operation of AML checks being carried out by banks or asset management firms in the UK to identify whether there are grounds for suspicion of corruption. If the bank accepts the client's account, the Home Office assume that this means that effective AML checks have been carried out and any risks have been identified.

Until the rules changed on April 6 2015, there was no necessity for individuals to obtain a UK bank account before applying and being awarded a Tier 1 (Investor) visa, a huge loophole that allowed visas to be granted without any checks being carried out.<sup>22</sup> During this period, which we describe as the 'blind faith' period, the Home Office relied on the commitment of the applicant to transfer their funds to a UK bank account **after** they were awarded the Tier 1 (Investor) visa. At the same time, a UK bank might typically have accepted the Tier 1 (Investor) visa as evidence that the individual was suitable to open an account. We have calculated that 97 per cent of all investors using the scheme to date invested their money in the UK during the 'blind faith' period.

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<sup>20</sup> <https://www.gov.uk/tier-1-investor/overview> [Accessed: 11 March 2016]

<sup>21</sup> Transparency International UK "*Gold Rush: Investment visas and corrupt capital flows into the UK*" (October 2015) <http://www.transparency.org.uk/publications/gold-rush-investment-visas-and-corrupt-capital-flows-into-the-uk/>

<sup>22</sup> <http://www.paynehicksbeach.com/media-events/publications/163/overview-of-recent-uk-investor-and-entrepreneur-visa-changes> [accessed 15 October 2015]



Of the 3,002 Tier 1 (Investor) visas awarded between Q3 2008 to Q1 2015 – the blind ‘faith period’ – **the majority of visas were awarded to nationals from countries with a high corruption risk: 37 per cent (1,115)** were awarded to **Chinese (and Hong Kong) nationals** and **23 per cent (695)** were awarded to **Russian nationals**.

In addition to the worrying lack of checks, there is no transparency around the system. All we know is the nationality of those entering under this system. We do not know who has benefitted from this system, the amount invested or what was invested in.

Figure 3



## Recommendations

**Reform the Visa system to require full income and asset transparency of High Net Worth Individuals that have entered or are seeking to enter the country**

**Recommendation 8: Prevent corrupt individuals entering the UK and laundering their funds through the Tier 1 (Investor) visa system**

The Home Office should bring full transparency to the Tier 1 (Investor) visa system, with public disclosures of who is investing, how much they are investing, what they are investing in and their financial interests and assets. Upfront declarations should be required for Politically Exposed Persons and public officials who should expect to meet a high level of transparency, even after they have left office. Retrospective checks should be undertaken on historical Tier 1 (Investor) visas that were granted in the ‘blind faith’ period and consideration given to publishing their details.

# 5. Reputation Laundering

## What is reputation laundering?

Reputation laundering is the process of concealing the corrupt actions, past or present, of an individual, government or corporate entity, and presenting their character and behaviour in a positive light. This is done in order to gain legitimacy, privilege, influence and impunity from justice. It helps to disguise individual acts of corruption like bribes, kickbacks, extortion and embezzlement, or endemic corruption which can go on for a number of years on a national scale. There is no law against reputation laundering, but it will often be funded by laundered illicit funds and is nonetheless ethically questionable.



Figure 4

## Who is involved?

We have identified a number of ways in which corrupt individuals have sought to cleanse their reputation and hide their past. This includes various sectors and products including:

- hiring **public relations firms** to manage their external image
- proactively developing **political connections** to gain influence in parliaments and governments
- engaging **law firms** to pursue allegations about their corrupt conduct or past
- using respectable **banks** to gain introductions to elite networks
- giving **philanthropic donations** to cultural, educational and charitable institutions to give an aura of respectability
- sending their children through **elite education** to develop their profile and connections
- buying or investing in prestigious **companies and sports clubs** to raise their profile as a reputable businessperson
- hosting at or sponsoring **sporting events** to gain status
- buying **high-end property** and **luxury goods** to flaunt their illicit wealth
- engaging in the **arts and culture** to give an air of refinement
- using the respectability of the **London Stock Exchange** to raise capital on international markets
- paying retainers to **professional advisors** to gain status

## Why does it happen in the UK?

The UK is a global centre for political influence, arts, culture and commerce, making it an attractive place for the world's global corrupt. Its public relations firms are world-renowned, able to give unparalleled access to influential journalists and politicians. Meanwhile the UK's universities and schools are amongst the most prestigious in the world, providing excellent education and networking opportunities. These are the same factors that make the UK attractive to those seeking to launder their reputations.

Although we have seen this as an increasingly important issue in the fight against corruption, more research is needed to understand how it affects the UK and what should be done about it.

## 6. List of our publications

### Research reports

[\*Closing down the safe havens\*](#) (December 2013)

[\*Corruption on your doorstep: how corrupt capital is used to buy property in the UK\*](#) (February 2015)

[\*Gold Rush: Investment visas and corrupt capital flows into the UK\*](#) (October 2015)

[\*Don't Look, Won't Find: Weaknesses in the supervision of the UK's anti-money laundering rules\*](#) (November 2015)

Christian Aid, Global Witness, the Tax Justice Network and Transparency International UK, [\*Joint report on corporate transparency in British overseas territories\*](#) (December 2015)

### Consultation submissions and responses

[\*Submission to HM Treasury national risk assessment on terrorist financing & money laundering\*](#) (July 2014)

[\*Submission to the department for Business, Innovation and Skills: The register of people with significant control – regulations\*](#) (July 2015)

[\*Response to the UK national risk assessment of money laundering and terrorist financing\*](#) (October 2015)

[\*Submission to the department for Business, Innovation and Skills: Enhancing transparency of beneficial ownership information of foreign companies undertaking certain economic activities in the UK\*](#) (March 2016)

