

# AML ALERT: Bribery and Corruption, Future Threats for the UK

Extract from NCA Amber Alert – December 2021 (Reference 0660-NECC)

## Overview

This alert provides an overview of new and emerging threats to consider in risk management processes related to bribery and corruption, and the associated proceeds. This awareness will enable detection of suspicious activity and reporting of the identified threats to the NCA providing potential disruption opportunities.

This alert is devised with the aim of promoting awareness and bringing about preventative action. We recommend you use this Alert to complement existing knowledge and support on-going improvements to your business processes and procedures.

## Migration of people from Hong Kong to the UK

- The People's Republic of China's decision to impose a national security law in June 2020 prompted the UK Government to offer a new immigration route to almost 3 million Hong Kong residents eligible for the British National Overseas (BNO) passport from January 31 2021, in order to allow them and their family members the opportunity to live, work and study in the UK. Residents will be eligible to stay in the UK for five years from this date, at which point they can apply for settlement and ultimately UK citizenship.
- As of Q2 2021 approximately 45,000 applications have been received by the Home Office<sup>1</sup> and Hong Kong residents leaving the city to move to the UK could trigger capital outflows of HK\$280 billion (\$36 billion).<sup>2</sup>
- There are challenges around identifying sources of funds / wealth that should be addressed through customer due diligence (CDD) processes, however there are potential issues with completing such CDD with a lack of access to open source and English language material.
- The policy regarding access to BNO passports reduces the risk of bribery to access the UK. As such, the key concern is the source of funds that are being brought into the UK, with pre-existing risks relating to illicit finance through Hong Kong's sophisticated and high-volume financial markets. The risk is expected to be across a broad spectrum of criminality rather than narrowly specific to bribery and corruption.
- Clients may be higher net worth, with greater implications for establishing source of funds or wealth. Clients with higher net worth can also be expected to seek tax and legal advice to support the migration of their wealth portfolios to the UK, and establish a new lifestyle, such as purchases of property and luxury goods.

## Electronic Money Institutions (EMIs)

- Emerging research into EMIs registered in the UK has identified a significant proportion with associations to people or firms with links to previous laundromat activity.
- With funds anticipated to be coming from Russia and former Soviet Union states, there is a high chance that the source of funds through this mechanism will have links to bribery, corruption, and sanctions evasion.
- Firms offering services to EMIs may be impacted, particularly given that UK FCA Regulated firms may be subject to simplified due diligence processes, reflective of the medium risk assessment within the 2020

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<sup>1</sup> <https://www.gov.uk/government/statistics/immigration-statistics-year-ending-june-2021/how-many-people-come-to-the-uk-each-year-including-visitors>

<sup>2</sup> <https://www.reuters.com/article/uk-hongkong-finance-outflows-idUSKBN29J0WM>

National Risk Assessment for Money Laundering & Terrorist Financing. There is a risk that some services will be offered without awareness of the associated risks.

- Individuals behind these firms may also wish to establish a financial footprint in the UK through the banking sector, and in turn establish a lifestyle where funds may be integrated, e.g., property market, art market etc.

## Green Sector

- A move has been identified towards institutions offering more products such as green and sustainability-back loans, in alignment with the growth in Environmental, Social & Governance (ESG) investing. A risk has been identified that companies in the sector may engage in bribery and corruption to obtain proof that they are compliant with local sustainability rules and standards, to attract ESG investment they would not otherwise be eligible for.
- Demand for minerals linked to the creation of batteries is expected to grow, with many of the mines being based in jurisdictions exposed to higher bribery and corruption risk, such as copper and cobalt from the Democratic Republic of the Congo. As demand increases it is highly likely that the associated bribery and corruption risks will also increase.
- Infrastructure projects, such as licences for seabeds allowing for offshore windfarms, are likely to be subject to a high degree of competition and state administrative control resulting from the granting of licences. Given long-term profitability available from licensing and becoming the dominant provider, this creates a high risk of bribery and corruption in the process for allocation of contracts, as is the case for other sectors where public officials wield significant administrative power such as extractives, construction, and defence.
- Bribery and corruption risk is expected to be elevated in the process of gaining licences for mineral mining and infrastructure projects which support the move towards green energy production. More broadly there are elevated risks of wider criminality such as fraud in the representation of opportunities such as carbon off-set schemes.
- Intermediaries are expected to be involved in the establishment of such schemes, with local officials and senior politically exposed persons (PEPs) being bribed or soliciting bribes in exchange for support.

## Server power for cryptocurrency mining

- The amount of energy being used to mine Bitcoin is rising with computing power required to mine the remaining Bitcoin.
- The threat has been identified as immediate and growing, as aligned to the growing global interest in crypto assets and their overall increase in value.
- Bribery and corruption risks may be elevated in areas where mining is banned to evade local law enforcement disruption. More widely there is expected to be the potential for cross criminality e.g., breach of local environmental and building regulations.
- Firms may have sight of some bribery and corruption risk where they are involved in the region especially with local property and infrastructure. Downstream there will be a flow of crypto assets which will eventually be converted to fiat currency or stable investments. These assets may come directly through an exchange into personal, business, and corporate accounts where there is appetite to invest proceeds of bribery and corruption in the UK.

## Secrecy Jurisdictions

- The introduction of new transparency rules is expected to drive displacement of activity to different jurisdictions, and potentially use different legal vehicles, such as more use of trusts.
- Overseas Dependencies and Crown Dependencies have pledged to have beneficial owner registers by the end of 2023 and Register Reform is expected to happen within the UK in 2022.

- Jurisdictions of immediate concern include Belize, Marshall Islands, Seychelles, Panama, Cyprus, and Delaware (USA). This threat is understood to be evolving and will require ongoing assessment to determine where displacement is directed towards.
- The risk profile of the threat aligns to each specific jurisdiction, the transparency rules, and the criminal opportunity.
- A wide range of cross criminality is expected to make use of emerging secrecy jurisdictions.
- Most sectors can reasonably be expected to be impacted as they will need to assess source of wealth and funds on a risk-based approach. The risk of the countries will need to be kept up to date as the environment changes. Exposure may be heightened in areas where products and services are offered to higher net worth clients with more complex global financial footprints and tax arrangements.

## Use of Crypto Currencies

- Use of crypto currency is anticipated to have wide cross criminality appeal due to the reduced regulation in the sector and potential to obfuscate source of funds.
- It is anticipated that crypto currency will increasingly be used as a method of making payments associated with bribery and corruption to circumvent existing due diligence controls.
- Where the crypto currencies are then used to purchase high value goods the end-to-end laundering and conversion may be completed with little contact with the regulated sector.
- May be more prevalent where PEPs seek to avoid detection associated with the monitoring of their financial services products they are usually subject to.

## UK Planning Reforms

- Changes to UK planning reforms are expected to increase the impact of discretion-based decisions in the hands of local officials, which creates bribery and corruption risk at the local level as the zone applied will have material impacts on the longer-term value of that land.<sup>3</sup>
- Bribery and corruption are expected to be a material risk, with local councillors, landowners and corporate expected to be at risk.
- Potential bribery and corruption through the accounts of local officials, or into local government accounts. Funds may come from private individuals or corporate property owners trying to influence the zone their land is allocated to, or from the property development industry (corporates) and associated intermediaries seeking to influence zones to ensure their developments are as cost efficient as possible.

## Defence Spending

- Defence has traditionally been an area of high risk for bribery and corruption.<sup>4</sup> The threat has been identified as potentially increased in the UK due to an announcement of an increase in budget for defence spending.
- Given that defence spending has been traditionally linked with bribery and corruption, the increase in spending is expected to increase the risk. The high value of contracts in spaces where there are relatively few providers may create heightened competition and appetite to offer bribes to secure long term contracts.
- There is the potential for bribery and corruption funds to be processed through the accounts of local officials or more senior officials holding PEP status, with benefit either monetary or 'in kind'.

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<sup>3</sup> <https://www.housingtoday.co.uk/news/jenrick-pushes-ahead-with-zonal-planning-reform/5107332.article>

<sup>4</sup> <https://ti-defence.org/what-we-do/industry-integrity/defence-procurement-standards/>

## More information

The full alert can be accessed on request which includes more detailed guidance related to:

- Migration of people from Hong Kong to the UK
- Electronic Money Institutions (EMIs)
- Green Sector
- Server power for cryptocurrency mining
- Secrecy jurisdictions
- Use of cryptocurrencies
- Displacement
- UK planning reforms
- Defence spending

## Suspicious Activity Reporting

If you know/suspect ML or terrorist financing activity you should make a SAR and include the reference **0660-NECC** within the text *in addition* to the ongoing use of the Glossary of Terms.

Guidance on reporting is available at: [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk).

## Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

## Disclaimer

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