AASG
Accountancy AML Supervisors' Group

AML ALERT: Money Laundering Risks Relating to the UK Investor Visa Programme

Extract from NCA Amber Alert - Reference 0573 – NECC

This alert comes from a July JMLIT alert and although you can no longer apply for a tier 1 visa, you may come across clients who have such a visa and you should be aware of the potential risks and red flags. Further details on how to apply to extend an Investor Visa (Tier 1) can be found here.

Overview

The purpose of the alert is to provide accountants information relating to the UK Investor Visa programme with high risk scenarios and red flags which may assist them in the identification of potential money laundering risk.

UK Investor visas are designed to allow wealthy individuals who make a substantial financial investment in the UK or other foreign jurisdictions to obtain permission for residency or citizenship. Applicants, and the wealth they invest, often originate from jurisdictions of elevated money laundering and corruption risk.

Enablers of Laundering the Proceeds of Overseas Corruption via the UK Property Market

Where professional services are used by money launderers, it may be the case that the institutions or individuals providing the services are complicit in the activity, though it may also be the case that they are unwittingly facilitating the transfer of criminal property.

The case studies used to develop the alert demonstrated that in most cases steps had been taken to subvert efforts to identify the source of funds as being from bribery and corruption. For example, through complex layered transactions and the use of family members' accounts.

It is expected that in cases of laundering of the proceeds of bribery and corruption, especially where the values of proceeds are high, that there will be a mixture of the use of innocent product and service providers, wilfully blind providers, and indeed professional money launderers.

Some of the case studies showed efforts to transmit specialised or complex transactions through unspecialised professional service providers that perhaps did not usually deal with such activity. These service providers may have therefore not been well placed to understand the risks associated with the client or transaction. It is suspected that this was a proactive effort made by the launderers to avoid detection, and these firms may have been targeted rather than having been collusive.

Many of the cases reviewed showed signs of general money laundering risks, for example using structures which may be considered as red flags due to them making the source of funds less transparent, such as trusts. There were also cases of customers with links to high-risk jurisdictions, or lack of apparent association with jurisdictions of residence. These arrangements may have been informed by professional service providers or by the perpetrators having wider knowledge and experience with money laundering.

Customer Due Diligence Considerations

- The use of a mix of traditionally low-risk products (such as residential mortgages) and traditionally higher-risk products (such as currency accounts).
- Funds being presented as income from a successful commercial venture.
- A wide variety of financial institutions and other professional services executed the end-to-end transaction for the purchase of properties. In practice this reduced the opportunity to understand the transaction in its entirety.

- The utilisation of processes that can be completed as a 'self-serve', for example company registration directly with Companies House or transfer of ownership of a property.
- Efforts to mask the source of funds.
- Clients operate without urgency and were willing to wait an extended period of time to launder the funds.
- Clients typically provided plausible explanations for source of wealth, which would require detailed investigation to corroborate or disprove.

One case study saw funds being moved out of a high risk jurisdiction into the EU to support a Golden passport application. Funds were then later moved from that jurisdiction into the UK, and into an account which was held by a PEP associate. The movement of the funds meant that the source country was not identified as high risk, and the recipient of the funds was not identified as high risk (or as a PEP). This meant that enhanced due diligence (EDD) was not requested. It is only through this EDD process that the original source of wealth would have been identified as being derived from a high risk jurisdiction and that the value was not in keeping for the PEP role that had been held there. This case demonstrated how transactions were broken down into component parts to reduce the audit trail (e.g. data that may have been screened in payments) and reduce the risk of the case being identified as suspicious or high risk.

Possible Red Flags

- Clients tend to be PEP associates rather than a primary PEP.
- Transactional activity of the client may be identified as 'not in keeping' with profile through expenditure activity as well as source of funds.
- The clients tend to be multi-banked, both in the UK and with offshore accounts. Whilst this is often reasonable given the clients profile it does reduce the ability to identify the end-to-end risk.
- Higher risk parts of the transaction may be completed in environments where there was a perception of less risk of being identified, prior to funds entering the UK.
- Client that presents the transaction is determined to not be party to the ownership structure of the investor. The true investor is seeking access to services through somebody else.
- Unexpected approaches in the form of 'walk in' clients requiring high end facilities
- The inability of the client to provide evidence in support of a transaction, such as proof of previous investments or supporting legal advice claimed to have been taken on the structure or general source of funds.
- Use of services that do not appear to be credible, such as establishing companies at addresses which are known to be 'high risk' (such as managed addresses, or addresses linked to other financial crime cases), or the use of service providers which did not seem relevant to the transaction.
- The lack of engagement with credible third parties in a negotiation, or a lack of negotiation over the price of a property.
- Use of known high-risk or complex structures, such as companies formed in secrecy jurisdictions, trusts where the settlor source of funds was not clear, and company formation types that aided the masking of the ultimate beneficial owner.
- Where business accounts are opened to support the end-to-end transaction but there is a lack of evidence of legitimate activity.

Emerging Risks

- Changes in the UK property market may also lead to changes in behaviours. Speculation around a cooling of the London property market, alongside coverage of commercial opportunities such as hotels and student accommodation could lead to the loss of perceived 'guaranteed value increases' in property. This may lead to a changed focus from the traditional high value residential property towards commercial investments which provide a return on capital.
- The sale of property (and other high value assets) through auctions. Although the vendor's solicitor is obliged to complete due diligence on the buyer, the sale is completed on the day of the auction leaving little time to complete meaningful due diligence beyond identification and verification checks. As such, the source of funds and source of wealth may not be fully understood and it may not be possible to determine when a buyer requires enhanced due diligence. Linked to risks around the post-sale transfer of high value assets, this means it may be possible to quickly and discreetly launder funds through property by purchasing at arm's length through a 'proxy' buyer. The true buyer can appoint a third party to complete the purchase to avoid identification in the due diligence process.

Transfer of ownership of the property at a later date can be completed with the Land Registry, which requires identification & verification checks, but not full due diligence.

- Properties purchased through online estate agents and cryptocurrencies. Open source information indicates that a small number of properties have been sold using crypto currency for payment. This doesn't appear to be growing at present, however if the crypto-asset sector consolidates, this risk may grow, and with it the challenges of completing meaningful due diligence on the source of funds and wealth for the purchase of the property.
- Online property introducers have become commonplace in the UK property market, enabling buyers to browse properties being sold with a multitude of estate agents through a single online portal. Whilst the customer due diligence (CDD) obligations remain with the estate agents and solicitors involved in the transaction, there is currently no CDD requirements placed upon the aggregator introducing the buyer to the estate agent. As this market develops, and with the increased use of online-only estate agents, the face to face element of the property purchase is being reduced. This higher risk environment may be abused by those seeking to launder funds through property in the UK.

Suspicious Activity Reporting

If you know or suspect ML or TF activity which may be indicative of the activity detailed in this alert, you should make a SAR and include the alert reference **0573-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

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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