



Strengthening and simplifying anti-money laundering in the UK

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ON THE CITY'S WORK TO COMBAT THE SCOURGE OF MONEY LAUNDERING**

My Brother Sheriff Chris Hayward CC and I chose “Primacy of rule of law” as our shrieval theme for 2019-2021. Connecting this primacy with ordinary business people, we chose to use the convening power of the Sheriffs’ office to promote discussion around “strengthening and simplifying anti-money laundering” (AML) in the UK. This is based around a core challenge increasingly important to the economic health of the UK: “If the UK is open for business, then try opening a bank account.”

Not much has changed since a City of London report¹ in 2005 concluded:

- International requirements on AML are implemented more rigorously in the UK than in other jurisdictions and the related costs are higher;
- The high costs in the UK do not generate greater benefits to UK-based organisations;
- Despite the high costs in the UK, the fight against money-laundering is not seen as more effective in deterring or detecting money laundering;
- The UK has not yet become competitively disadvantaged due to the high costs but it is approaching a tipping point;

- The UK can become more effective at deterring money laundering by raising the perceived likelihood of money launderers being caught and the perceived severity of the punishments.

We noted that research so far concludes there is no pressing need for new legislation, it’s merely that firms and regulators need to work harder on ensuring simple and effective interpretation. Andrew Marsden, Chairman of the Financial Services Group of Livery Companies, volunteered to lend support. Graeme Gordon, Master of the Chartered Accountants, working with Kate Surala, formed a Taskforce to support this “strengthening and simplifying” initiative. The Taskforce took the discussion forward towards concrete ideas, pointed out to major financial institutions that the nation is watching their performance in aid of trade and engage with them regarding the proposals, galvanised relevant trade bodies to support the initiative, and pushed relevant livery companies to support as they saw fit, especially the 15 members of the Financial Services Group of Livery Companies. The

Taskforce ran from 27 September 2019 to 27 September 2021.

The Taskforce and the Sheriffs delivered:

- Information at Old Bailey luncheons – the Law Society provided background information sheets on the topic with suggestions for improvement;
- Topic luncheons – we hosted several luncheons where the invited guests represented several aspects of the issue, e.g. financial institutions, professionals, regulators, lawyers;
- Evening events – we hosted a gala panel and drinks event with the Financial Services Club to discuss the issues openly on 19 November 2021. Some 150 people discussed the topic; the financial crime director of one major insurance broker said afterward that “The event yesterday was the first time I felt amongst people of similar views and I could not let the opportunity pass to possibly drive forward some significant change in this arena.”;
- Seven webinars;
- Presentations at the 37th and 38th Cambridge International Symposia On Economic Crime – Michael Mainelli and Chris Hayward on

“Economic crime” 7 September 2020, both videos available via crimesymposium.org, and Michael Mainelli. “who pays and who should pay?” 6 September 2021.

- A global survey of AML issues² in which 2,274 financial professionals around the world rated the effectiveness of approaches to AML. The results show a significantly greater emphasis on government digital certificates since the covid-19 pandemic; and
- A free online bulletin³

Along the way, discussions were held with Equifax, Monzo, Metro, the Law Society, ICAEW, PIMFA, LMG, Bloomberg, World Federation of Exchanges, Cabinet Office Digital Identity team, Ministry of Justice, BEIS, UKAS, and HMRC, amongst others. In short, all agreed that the issue is pressing and stated that they would like to increase the volume of the dialogue. A significant push is to move from a handful of institutions who have realised that current legislation provides significant procedural options to many institutions. For example, why can challengers take a passport “selfie” and then use further information services to onboard most applicants swiftly, while established firms don’t?

RECOMMENDATIONS

Over 24 months, the following recommendations were compiled to help strengthen and simplify anti-money laundering:

- Testsets – promoting and hosting a repository of anonymised, open source databases for testing AML systems. Such testsets would evaluate automated systems’ accuracy against real-life data by measuring the rate of false positives and false negatives;
- Amnesties – promoting discussion of whether a dirty money amnesty (over what areas and what period of time?) might allow firms to speed up their AML processing;
- Suspicious Activity Report (SARs) feedback – encouraging law enforcement officials to provide more feedback on which SARs help

and which don’t, including perhaps a testset of “good SARs” and “bad SARs”. In August 2019, Jim Richards, former global head of financial crimes risk management for Wells Fargo usefully asked – “Can we produce fewer alerts and have it cost less and investigate fewer cases and file better SARs? The answer to that is maybe — but we don’t know what a better SAR is”;

- Using accreditation – kitemark(s) such as those accredited by the United Kingdom Accreditation Service could be an aspiration for firms want to meet account opening and service standards. This approach was taken by www.fairbanking.org.uk on bank accounts that were fair and trustworthy. A more basic offer might be to encourage the sharing of “how to” processes to move towards a better understanding of good practices;
- Government digital certificates – providing digitally certified electronic documents as a matter of course for transaction results ranging from export certificates to tax returns to drivers’ licences;
- Encouraging data sharing among certifiers – new technologies such as smart ledgers provide mechanisms for sharing identity and other AML documentation, but their true power can only be realised if firms agree to share data with consumers’ permission;
- Encouraging discussion about “indemnity” among certifiers – if I use your certification documents and they turn out to be incorrect, how much obligation do you have towards me. This could lead to discussions about mutual fault insurance;
- Encouraging discussion with regulators about ‘fixed fines’ – in line with indemnities, getting regulators to provide a pre-determined scale of fines, e.g. £1,500 per poorly onboarded client, would encourage better information sharing and also permit robust cost-benefit analysis. Adjusting the fines over time would be a more subtle regulatory tool in line with risk-based compliance;
- Digital ID infrastructure – while seen to be a “third rail” in the UK after

the 2006 ID card debacle, as well as many subsequent attempts, virtually everyone looked to government infrastructure support for personal and business identity. Infrastructure support did not necessarily mean the government actually providing personal or business identity, rather setting out standards for inter-operability and using the infrastructure itself.

And yet ... what seems to be missing most is leadership and cooperation. This is where the International Bankers could be of enormous help, putting pressure on firms to deliver a superb service so that the UK is open for business because accounts can be easily opened.

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¹ tinyurl.com/46j258nv

² tinyurl.com/29j7jc6h

³ tinyurl.com/46j258nv



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