PUBLIC PRIVATE ECONOMIC CRIME NEWSLETTER

Issue 4 | March 2021

Introduction

Welcome to March's edition of the Public Private Economic Crime Newsletter.

In this edition, we look at the latest from the Innovation Working Group, and learn about the campaign against clone firm investment scams. We explore the progress of the fraud Sector Charters, and the amendment to the Financial Services Bill, which tightens the rules for payment and e-money institutions.

In the third of our 'explained' series we look at the Suspicious Activity Reports (SARs) Programme.

Innovation Working Group Legal Entity Identifiers

The third Treasury-UK Finance Innovation Working Group met on the 11 February. It was supported by the Bank of England and looked at the use of Legal Entity Identifiers (LEIs) in the private sector to tackle economic crime.

LEIs are a global standard designed to uniquely identify any legally distinct entity that engages in financial transactions.

They are an enabler that offer potential to improve the accuracy, speed and privacy of several financial crime processes, including Know Your Customer and Customer Due Diligence.

'Clone firm' investment fraud scams

In the calendar year 2020, Action Fraud received 2,252 reports of 'clone firm' investment scams, equating to £78.7m losses.

'Clone firm' investment scams are when criminals imitate legitimate investment companies, using their branding and even cloning their websites, to trick people into thinking they are investing with the genuine company.

Victims are often approached by the bogus companies after putting their details into online investment comparison websites, helping the criminal groups carrying out these frauds appear legitimate and negating the need for high pressure sale techniques.

The Financial Conduct Authority, working with the National Economic Crime Centre and City of London Police, issued a warning to the public at the end of January encouraging them to watch out for these scams. These bodies are also working closely with the National Cyber Security Centre to take down cloned websites and associated fraudulent phone lines and email addresses.

Amendment to the Financial Services Bill

The current Defence Against Money Laundering (DAML) reporting regime is creating challenges for payments and e-money institutions. Currently these institutions are required to submit a DAML before proceeding with any transition involving suspected criminal property, however small.

On the 13 January, the Government introduced amendments to the Financial Services Bill which will bring payments and e-money institutions within scope of the £250 DAML threshold provision, allowing these institutions to access the same provisions available to banks and building societies. Inclusion in this threshold provision will allow payments and e-money institutions to process transactions below £250 without the need to seek consent from the National Crime Agency.

The amendments will ensure that accounts held at payment and e-money institutions will also be in scope of account freezing and forfeiture powers, allowing law enforcement to quickly and effectively freeze and forfeit the proceeds of crime held in these accounts.

Information Sharing & Anti Money Laundering (AML) Effectiveness

In January, the members of the main Expert Working Group on information sharing and AML effectiveness, were taken through the latest progress on the three strands of work including:

- **Post Suspicion Sharing:** Counsel's advice is being sought following the proposal to create a platform to enable AML regulated organisations to share customer intelligence in relation to suspicions of money laundering.
- **Rebalancing Regulated Sector Resource:** The Joint Money Laundering Steering Group Part 2 guidance is being refreshed to address the issue of unproductive transaction monitoring alerts. This is expected to be ready in the second half of the year.
- **DAML Process Continuous Improvement Mechanism:** Home Office continues to review the option to create legislative exemptions for ineffective reporting in the DAML regime to reduce burdens on both the UK Financial Intelligence Unit and AML regulated sector reporters.

The Expert Working Group has now been disbanded with regular updates to be provided through the Public Private Steering Group.

Fraud Sector Charters

The Sector Charters, which strengthen our commitments to prevent fraud in partnership with multiple sectors, continue to develop at pace. Industry partners, law enforcement and departments across government have played an integral role in the development of the charters. We are grateful for all the time and effort industry partners have dedicated to these conversations.

SUSPICIOUS ACTIVITY REPORTS (SARs) REFORM EXPLAINED

What is a SAR?

A SAR is a statutorily required intelligence report submitted by the regulated sector to the UK Financial Intelligence Unit (UKFIU). The UKFIU disseminates them to UK law enforcement agencies and international FIUs.

Why is SARs reform required?

Despite being one of the toughest regimes in the world, the intelligence data from SARs needs to work faster and go further to increase money laundering prosecutions and disruptions. Issues to be addressed include the replacement of a legacy IT system unable to cope with the increase in SARs reporting volumes, insufficient resources in the UKFIU, under-utilisation of SARs by law enforcement and inconsistent compliance within the regulated sector. In collaboration with the public and private sector, the programme has identified changes to address these problems and deliver the strategic outcomes of more effectively and efficiently protecting the integrity of the regulated sector and disrupting money laundering, terrorist financing and high harm offences. The improvements delivered through the SARs Reform Programme are expected to contribute to a range of law enforcement outcomes, including increased asset confiscation opportunities and improved criminal disruption and incapacitation outcomes.

What have we achieved to date?

The programme is at the heart of improving the performance of the AML system and this will be enhanced by the launch of **new digital IT system in Q3 2021**, when both the new reporter portal and the Application Programming Interface for bulk reporters will be live, improving efficiency and effectiveness of SARs analysis and intelligence. In addition, the programme is already delivering successful outcomes:

Improved Guidance	Improvements to guidance that do not require changes to legislation e.g. The development and promotion of Data Standards to not only assist DAML triage, but also enable sector-specific improvements in data analysis and management reporting and provide sector-specific reporter feedback.
Staff uplift at Regional Organised Crime Units (ROCUs)	Since August 2020, the new SARs Intelligence Development (SID) teams in the ROCUs have been supporting the work of law enforcement and other agencies. The higher quality intelligence gained from SARs reporting is contributing to the creation of new cases, as well as supporting ongoing investigations, e.g. one team has already identified a previously unknown organised crime group.
Expediting high harm/high risk cases to law enforcement	The turnaround time for Defence Against Money Laundering (DAML) SARs in the UKFIU has reduced from an average of 5.15 days to 2.54 days, ensuring law enforcement has longer to act on the information contained within a DAML SAR. This increased efficiency and analysis at the UKFIU is providing all reporters with more relevant and meaningful feedback.
Staff uplift at UKFIU	A staff uplift at the UKFIU has improved efficiency and effectiveness in the analysis and triaging of SARs. A further uplift is planned for the next FY and they will exploit digital communications to reach a wider audience and increase production of Threat Analysis reports, which are disseminated by the UKFIU to law enforcement agencies or relevant sectors to aid understanding of the threat and focus reporters on higher value crimes.