



THE INVISIBLE NETWORK: FROM THE SOURCE TO THE SHOP FRONT



THE SOURCE

Includes white-collar fraudsters, cybercriminals and organised crime gangs that make their money illegally. To spend their ill-gotten gains, the Source's money needs to be cleaned up first by laundering.



THE LEADER

Needs hard cash to stay in power and keep henchmen loyal. Often the Leader is already on a watch list and they'll usually call on trusted friends or associates to act as fronts for their activity.



THE BYSTANDER

Bystanders do not actively facilitate crime but they will not raise the alarm if they see something that's not quite right. Bystanders will convince themselves that they are not witnessing illegal behaviour in order to line their own pockets.



THE WATCHED

People in positions of power, influence or opportunity who can either be corrupted or facilitate corruption. Often senior civil servants or public figures, they represent possible targets for bribery and other inducement by virtue of their position.



THE SHARK

The Shark works for a legitimate business, using it as cover to help clients evade sanctions, launder money and profit from crimes. While appearing law abiding to others, they are cultivating contacts in the criminal underworld.



THE SHOP FRONT

The Shop Front is a business built from the ground up to serve crime and criminality, disguising the real owners of businesses. Shop Fronts include business registration and service companies, even law firms and financial advisers.

Cleaning up: Britain takes on the money launderers

Financial institutions are increasingly turning to big data and artificial intelligence to help detect the potential crime before it takes place, says **Chris Price**. But the task is daunting, with an estimated £80bn involved

Transnational organised crime generates income equivalent to around 2.7pc of global GDP. About \$1.6 trillion of this is laundered to disguise its criminal origins, so financial crime is undoubtedly a worldwide problem. As a major financial and transport hub, the UK is particularly attractive to people wanting to clean or hide dirty money.

The anti-corruption organisation Transparency International recently identified more than 760 companies registered in the UK that were directly involved in financial crime from at least 13 countries.

According to the organisation's report *Hiding in Plain Sight*, companies are used as layers to hide money that would otherwise appear suspicious, with many registering in the UK because it is seen as a respectable place to do business.

Fraudsters are increasingly turning towards the latest digital technologies, including cryptocurrencies such as bitcoin, to disguise their illicit activities. "They are also using hacking techniques including malware to control 'mule' accounts through which funds are channelled."

But it's not just money launderers who are turning to the latest technology. For defence company BAE Systems, implementing technology solutions to help tackle financial crime is now a core part of its strategy. "We see financial crime along with anti-fraud and cybersecurity as an extension of our traditional defence role," says Rob Horton, who is the head of

“Financial institutions are beginning to take a much more proactive approach to the problem

financial crime solutions EMEA at BAE Systems.

The organisation, which began providing financial crime solutions back in 2003, currently works with around 200 tier-one financial institutions globally. This involves helping the institutions with their financial crime compliance regime as well as preventing money laundering within the banks.

"We provide big data and investigation solutions into the financial institutions to help validate customers' identities and to detect any risk of money laundering or other crime," says Mr Horton.

In addition, BAE Systems provides the necessary technology to allow the banks to monitor large volumes of their customers' transactions. One of the current problems is "de-risking", whereby a financial institution has

Data defender Rob Horton of BAE Systems says tackling financial crime is a now a core part of the company's strategy



identified a particular sector, such as money-transfer businesses, and has simply decided to close down all accounts in that sector, deeming them too risky. For example, dozens of bona fide business accounts were recently closed down or frozen as a result of a well-known international bank's crackdown on money laundering.

"Even in high-risk areas, the vast majority of businesses are perfectly legitimate," says Mr Horton. "We are encouraging a technology-focused response that really looks at the data banks hold, applying newer types of analysis such as network analytics and machine learning to reduce the number of false positives."

Significantly, it seems that financial institutions are beginning to take a much more proactive approach to money laundering, going beyond transactional analysis to preventing financial crime from happening.

"Rather than producing a large number of alerts that aren't actually suspicious, we're now seeing much greater demand for much more advanced machine learning to detect criminal activity," says Mr Horton. "For example, BAE Systems' latest technology allows banks to look at the directors, and the ultimate owners of the corporate entities involved in a particular financial transaction, to see if there are any suspicious links between them."

Banks spend billions a year complying with anti-money laundering legislation, including filing Suspicious Activity Reports (SARs) if they suspect that money laundering or terror financing is taking place. But there are concerns that law enforcement agencies could be doing much more. According to Europol, the European agency for law enforcement, of the one million SARs filed annually, only about 10pc are investigated by law enforcement. The current system leads to only 1pc of criminal proceeds (about €1bn) being confiscated across Europe. Consequently, there has been a push more recently towards a much more intelligence-led approach between law enforcement agencies and financial institutions in order to combat money laundering. Launched last year by the UK Government, the Joint Money Laundering Intelligence Taskforce (JMLIT) has already seen some success, with 63 arrests of individuals suspected of money laundering and 1,000 bank-led investigations into financial crime between May 2016 and March 2017. For BAE Systems, which provides the technology platform that allows banks and the National Crime Agency to share intelligence, collaboration is key, says Mr Horton. "These joint initiatives of intelligence sharing have had a very positive impact in curbing criminals laundering money in the UK, but there is more to be done in terms of sharing information and improving efficiency across law enforcement and banks."

WHY IS LONDON A TARGET FOR MONEY LAUNDERING?

Given the size and scope of financial services activities in the UK, it is inevitable that some money will be laundered here, even if the underlying criminal activity takes place elsewhere. There are no official figures for money laundering in the UK but the anti-corruption

body Transparency International says about £80bn is laundered in the UK each year.

Part of the problem, as the Panama Papers and more recently the Paradise Papers have highlighted, is that some law and accountancy firms are prepared to accept new clients

without performing adequate checks.

Many criminals consider the UK, particularly London, a safe haven. "A portfolio of valuable property in central London is the ideal way to hold large amounts of untraceable wealth," says Clive Zietman, a partner at

the corporate litigation firm Stewarts.

Nor has the UK taken tough enough action when it comes to money laundering, says Jonathan Fisher QC, visiting law professor at LSE and commentator on the Channel 4 documentary *From Russia with Cash*. "I don't think successive

governments have shut their eyes to dodgy money coming into the UK, but they are guilty of being asleep at the wheel by not taking stronger enforcement action."

And while initiatives such as the Government's JMLIT are beginning to have an effect, the cost of money laundering to

society is immense. David Stevens, integrity and law manager at ICAEW, said: "Financial crime leaves a large gap in the finances of nations, which could be better spent elsewhere.

It's important not to forget the harm to health, careers, relationships and livelihood of those affected by such activity."

For more information, go to baesystems.com/InvisibleNetwork