

■ RedFlagAle

The Complete Guide to

# Anti-Money Laundering Regulations

2024



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RED FLAG ALERT | GUIDE | THE COMPLETE GUIDE TO ANTI-MONEY LAUNDERING REGULATIONS 2023

# About This Guide



In recent years, anti-money laundering regulations have become increasingly stringent and complex, and penalties have steepened. The consequences for AML non-compliance now include substantial fines, possible jail time and the closure or suspension of business activities.

Companies must have processes in place to run AML checks and produce records when asked by auditors. With regulatory updates happening multiple times each year, you need a strategy for staying on top of it all and systems that quickly adapt to new requirements.

After all, if you unintentionally facilitate money laundering and you don't have these systems in place then you'll be liable.

We don't want you or your business to become the unwitting victims of financial crime by not following new AML regulations.

That's why we've put together this in-depth guide.

Inside you'll find everything you need to know about:

The importance of AML regulations

The state of money laundering in the UK Who the major regulatory bodies are

and the regulations they enforce

Which businesses and professions require AML processes and procedures

How to conduct AML risk assessments

What new AML regulations are coming up in 2022

You'll learn how all this affects your business and how you can manage AML compliance in 2022.

If you have any questions or you'd like to discuss how AML regulations will affect your business, don't hesitate to reach out. We'd love to help you navigate this complex issue.

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# What is Money Laundering?

Money laundering is the process of turning money gained through criminal activity — a.k.a. “Dirty money” — into cash that appears legitimate.



Large-scale money laundering often happens through international connections in three steps:

## Placement:

Involves introducing the money into the financial system through smaller deposits and investments.

## Layering:

The introduced money is shuffled around to obfuscate its origins.

## Integration:

The laundered money is absorbed into the economy as ‘clean money’.



## Some popular money laundering methods of the past include:

### Smurfing:Mules:Shell Companies:

Smurfing involves conducting many small transactions across different bank accounts to break up a large sum of money.

Sometimes smurfs use currency exchanges and international wire transfers to complicate the money

Mules typically smuggle cash to one country and then exchange it for physical goods such as gems or gold.

The physical goods are then brought back into the money launderer's country and exchanged for 'clean money.'

Shell companies — while not illegal — attract money launderers due to their privacy, since international authorities often don't have the right to audit offshore accounts and companies.

## While these methods are still common, technology is creating new ways to launder money, such as

Online banking

Online auctions

Gambling sites

Virtual gaming

Proxy servers and Virtual Private Networks (VPNs)

Anonymous payment services

Cryptocurrency

In particular, a known internet phishing scam is manipulating people into unintentionally laundering money. The money launderer will contact the unsuspecting victim, telling them

they've won a lottery. However, when the victim receives the money, they're required to transfer a portion of it to another account.

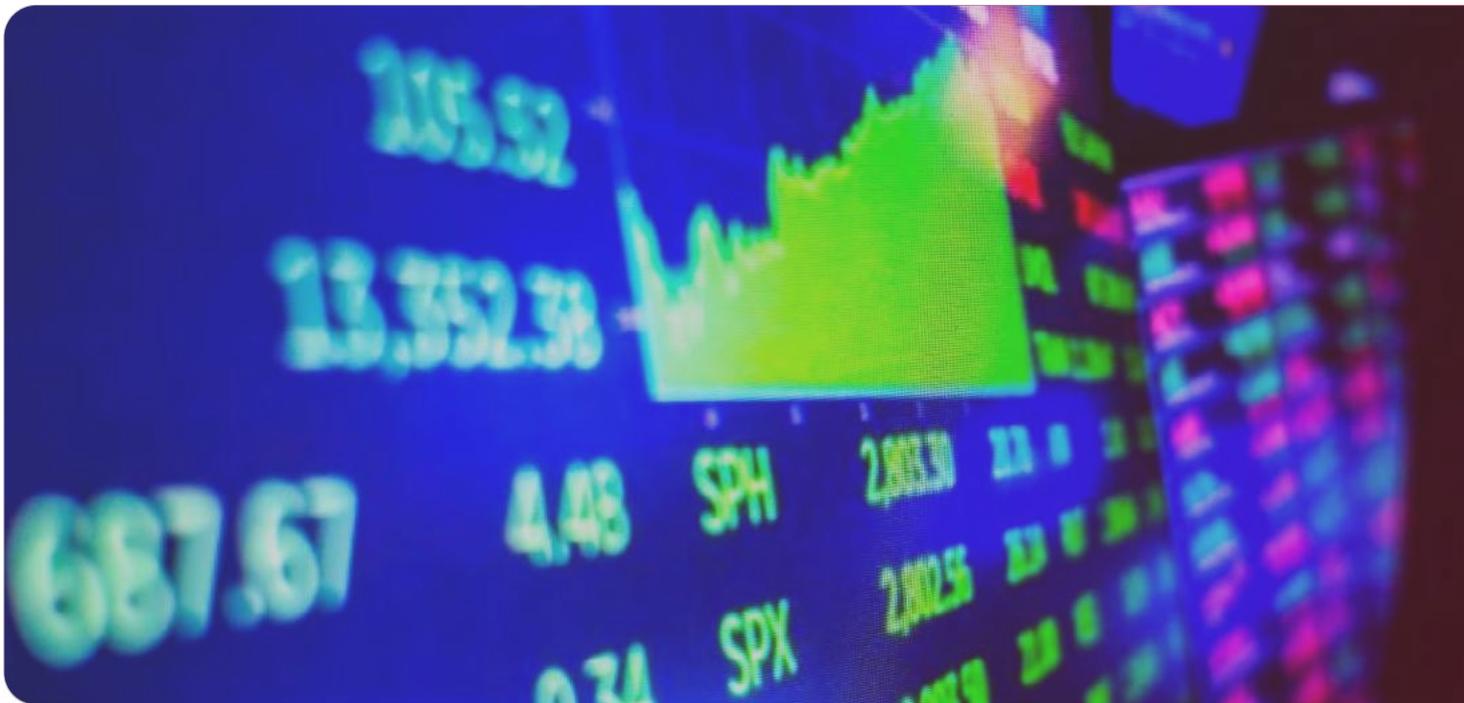
## Other ways criminals get the general public to launder money include:

Pretending to issue a refund from a company and then 'mistakenly' transferring extra money, which the victim then has to transfer elsewhere.

Advertising jobs as 'currency controllers' or other obscure job titles which involve receiving and making money transfers.

Asking to use a victim's PayPal address to receive payment for a product the criminal is 'selling.'

Each year, billions of pounds are laundered in the UK through these different strategies.



# Why are AML Regulations Important to Businesses?

Anti-money laundering regulations are put in place to stop businesses from becoming accomplices to corruption.

However, adhering to these regulations is problematic because:

Money laundering risks can emerge unexpectedly

AML regulations are constantly being updated and amended

Audits can happen at any time

There are many complex steps to fulfilling these regulations

Unfortunately for businesses, whether they launder money on purpose or by mistake, the consequences are the same.

## Some consequences include:

Non-compliance penalties of up to 14 years in prison

Financial penalties like the £7.8 million fine HMRC issued to a single business in 2020

Administrative charges of up to £1,500 (besides penalties) even for minor offences

Attracting the attention of regulators resulting in audits

While they make business more complicated, AML regulations are there to protect your business and combat money laundering.

HMRC issued a single **£7.8m** penalty to one business back in 2020

# The Scale of Money Laundering in the UK and Around the World

Money laundering is a severe issue in the UK, with the National Crime Agency estimating a total of £ **£36-90bn** laundered each year.

Around the world, the situation is similar. The United Nations Office on Drugs and Crime (UNODC) estimates that **\$800 billion - \$2 trillion** is laundered each year.

Some recent money laundering events you may have heard about include:

## The Pandora Papers

The Pandora Papers is a recent data leak that details how world leaders, public officials and numerous billionaires have been using offshore entities to channel wealth.

While the use of offshore entities isn't illegal, their privacy and obfuscation of asset ownership does attract criminals, money launderers and tax evaders.

As a result, the Pandora Papers have opened the floodgates for hundreds of potential money laundering cases worldwide.



## Some notable appearances in the Pandora Papers include:

### Azerbaijan's Andrej Babiš, Prime ruling Aliyev Minister of the familyCzech Republic

This family is no stranger to corruption accusations and are currently in the middle of an investigation over a property sold to the Crown Estate.

Currently being questioned over his purchase of a \$22 million chateau through various offshore companies.

### Uhuru Kenyatta, President of Kenya

After amassing over \$30 million in offshore assets between him and his relatives, he now faces potential scrutiny.

## NatWest Bank

While NatWest bank hasn't been directly responsible for money laundering, they're facing a substantial fine for not flagging the activity of a previous client, Fowler Oldfield.

Police shut down Fowler Oldfield after discovering their part in a multimillion-pound money laundering scheme.

Fowler Oldfield's predicted revenue was set at only **£15 million a year**, but investigations found a total of **£365 million** deposited in less than five years.

After these findings, NatWest has been fined more than **\$264 million** by the Financial Conduct Authority.

## The Glasgow Trio

On a smaller scale — nonetheless just as illegal — three men in Glasgow are accused of laundering £1.5 million.

Prosecutors have accused the trio of:

Arranging a **£1.48million** deposit into a “client account” at a law firm

A fraudulent sale of a **£240,000** property

Moving **£985,025** of illegal cash

Three other individuals connected to the case face separate charges under the Proceeds of Crime Act.



# The History of AML Regulations in the UK

AML regulations began in 2000 with the Terrorism Act, and the government has been adding to them over time.



In recent times there have been updates to:

The Money Laundering and Terrorist Financing Regulations 2019

The Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector (2020)

The European Union's 6th Anti-Money Laundering Directive

As the UK Government aims to combat money laundering, they're taking steps to tackle it further by regulating more activities and issuing more significant fines.

The government has planned multiple amendments to AML regulations in 2022. It is also passing legislation to identify the true owners of foreign-owned UK property.



## Thanks to the government's efforts:

HM Revenue and Customs stopped 89 non-compliant businesses, issued penalties totalling £9.1 million and recouped more than £22 million linked to money laundering (2019 to 2020).

HMRC handed out its largest fine ever (£23.8 million) at the start of 2021.

Total FCA fines reached £392 million in 2019 and nearly £200 million in 2020.

The National Crime Agency's Unexplained Wealth Orders (UWOs) secured £10 million in October 2020.

Largest fine ever of  
**£23.8m**

Issued by HMRC in 2021

FCA fines reached a total of  
**£392m**  
in 2019

# Anti-Money Laundering Authorities in the UK

Authorities in the UK take a multi-faceted approach to combat money laundering by specialising in different areas.

## The three central AML agencies in the UK are:

### The National Crime Agency (NCA)

The NCA focuses on detecting and preventing organised crime in the UK by:

- Working with local and international agencies to disrupt money laundering

- Preventing the financing of terrorists

- Partnering with the Crown Prosecution Service (CPS) to prosecute criminals involved in money laundering

### HM Revenue and Customs (HMRC)

HMRC combats money laundering by:

- Investigating money laundering offences with the Financial Conduct Authority (FCA)

- Guiding firms on monitoring suspicious activity and conducting due diligence
- Freezing or confiscating assets that individuals may have gained through unlawful means

### The Financial Conduct Authority

The FCA is the primary regulator in the financial services space. Their tasks include monitoring.

- Banks

- Credit unions

- Building societies

- Money service businesses

These businesses need to formally register with the FCA and must abide by its AML compliance regime.

# Major AML Regulations in the UK

While the UK has many different AML regulations, the three significant regulations in the UK are:



## The Proceeds of Crime Act (POCA) 2002

POCA is the UK's primary source of AML regulation and covers details like:

- What the various money laundering offences are

- The process of recovering 'dirty assets.'

- Penalties that criminals face for money laundering

The act also details how businesses should implement effective AML compliance, including Customer Due Diligence and Know Your Client (KYC) checks.

## 6th Anti-Money Laundering Directive (AMLD)

AMLDs detail a business's due diligence requirements in the EU. For example, transaction tracking, risk assessments and reporting.

The 6th EU Anti-Money Laundering Directive was passed on 3 December 2020 and replaced 5AMLD. The UK government has opted out of 6AMLD as they believe existing legislation is already compliant with the new directive.

This means that you'll need to make sure your business is compliant if you trade with businesses in the UK or EU or are based there

New additions to the directive include:

- The detailing of 22 offences that are deemed criminal activity

- Expanded criminal liability to include 'lack of supervision or control' by a 'directing mind', resulting in potential penalties for business leaders

- Requiring member states to work together when prosecuting money laundering cases

- Adding 'aiding and abetting' and 'attempting and inciting' money laundering to target those indirectly involved in the crime

## The Terrorism Act 2000

The Terrorism Act originated before POCA. Its later updates extend POCA's compliance requirements of banks and financial institutions.

The TA's purpose is to prevent financial services companies from allowing funds associated with terrorist and criminal activities to pass through their accounts



# AML Regulations for 2022 — What to Expect

AML regulations are continuously being updated and amended here in the UK.

For 2022, the headline themes are rising compliance costs and increasingly complex regulations.

## Increasing Compliance Costs

Businesses cite regulations and the need to comply with them as the main driver for increasing compliance costs rather than criminal threats themselves.

Financial institutions in the UK expect AML compliance costs to continue rising, estimating total spending to reach £30 billion by 2023.

On an individual basis, smaller firms average £186.5 million per year while large institutions spend around £300 million.

Estimated UK AML  
Compliance cost  
**£30m**  
by 2023

## Excessive regulations

As each year goes on, new compliance requirements are added. As a result, AML regulations and directives have become so complex that many businesses can't navigate them alone.

**Institutions expect this situation to worsen due to Brexit and having to comply with additional regulations.**

Financial institutions rely on the Joint Money Laundering Steering Group (JMLSG) to get compliance right. However, their advice often comes well after new directives and legislation are introduced, resulting in businesses spending extra time and money figuring out changes.

While smaller firms spend less on compliance overall, on a relative basis, they're hit harder by AML regulation costs.

Consequently, many financial services firms believe that AML regulatory costs are becoming disproportionate to their size and risk levels.

## Expected AML Challenges for 2022

As compliance costs increase and new regulations are put in place, there are three key AML challenges for 2022:

### 1. Balancing innovation and compliance

Financial institutions believe that innovation is the best way to deter money laundering. However, the growing complexity of compliance is forcing financial institutions to focus more on complying with regulations and managing compliance systems.

### 2. Dealing with increasing volumes of compliance activity and the resulting costs

Financial institutions say the primary driver of costs in this area is the growth in AML activity. This is likely due to:

Money laundering and other scams receiving media attention, forcing legislators to react.

Government agencies and law enforcement prioritising money laundering, forcing C-suite executives to do the same.

Business growth and customer onboarding and the subsequent due diligence this entails

## Spikes in criminal activity and remote work mandates

Whether by cause or coincidence, criminal activity has risen during the current pandemic. And due to lockdowns and social distancing, financial institutions are struggling to keep up with them.

With remote work mandates in place, businesses have:

- Reduced control and compliance monitoring capabilities
- Difficulty accessing due diligence information
- Increased manual compliance tasks

As a result, firms are experiencing delayed on-boarding and less productivity





## AML Regulatory Updates for 2022

While many businesses are still struggling to adapt to previous AML regulations, there's still more to come in 2022.

These are the regulatory updates to look out for:

When	What's Happening	What It Means
March 2022	The Money Laundering and Terrorist Financing amendments come into play	Which amendments (if any) will happen is yet to be confirmed, however, some potential changes include: <ul style="list-style-type: none"> <li>• Reviewing sectors that may be excluded from regulation in the future such as Account Information Service Providers and Bill/Payment Service Providers</li> <li>• Including digital art into the current art sector</li> <li>• Giving regulators the right to review SARs during supervisory audits</li> <li>• Strengthening AML definitions and enhancing the clarity of ambiguous content</li> <li>• Making cryptocurrency subject to the same currency transfer rules as fiat transfers</li> </ul>
Spring 2022	The UK Government plans to launch a new digital Suspicious Activity Reporting service and address the effectiveness of SARs	The current SAR reporting service is getting an overhaul as it's difficult to improve Key goals for the project include: <ul style="list-style-type: none"> <li>• Improving the efficiency and processing of SARs</li> <li>• Meeting the additional security requirements of AML regulations</li> </ul>
2022/2023	Commencement of the new economic crime levy	The UK Government is planning a levy for firms with the goal of raising £100m Funds from the levy are going to be put towards initiatives in the National Economic Crime Plan The levy is based on a yearly revenue tier system with the following levies: <ul style="list-style-type: none"> <li>• Small (under £10.2m revenue): No levy</li> <li>• Medium (£10.2m – £36m): £10,000</li> <li>• Large (£36m - £1bn): £36,000</li> <li>• Very large (over £1bn): £250,000</li> </ul>

## FATF Guidance for 2022

In their recent report, FATF highlights the importance of technology and data in the fight against money laundering and terrorist financing.

In particular, they highlight the following as ways to improve and make AML regulations easier to implement:

Machine Learning

Distributed Ledger Technology

Natural Language Processing and Soft Computing Techniques

Application Programming Interfaces

By adopting these technologies the FATF believes businesses will:

Improve the speed, quality and efficiency of AML measures

Help financial institutions and managers make accurate, timely and comprehensive risk assessments

Bring more people into the regulated financial system

On a more specific note, the report highlights benefits for two key stakeholders:

Private Sector	Super visors
<ul style="list-style-type: none"> <li>• Higher quality SAR submissions</li> <li>• Reductions in the cost of compliance</li> <li>• Greater efficiency during on-boarding and data analysis</li> <li>• Easier audit processes</li> </ul>	<ul style="list-style-type: none"> <li>• Manage larger amounts of data</li> <li>• Real-time compliance monitoring</li> <li>• More efficient communication with authorities and other regulated entities</li> <li>• Better understanding of AML risks</li> </ul>

However, implementing new technologies is not without its challenges. Some of the potential barriers highlighted by the FATF include:

**Regulatory obstacles:** While supervisors are still in the process of figuring out new technologies and their implications for AML, the FATF expects regulatory adjustments to catch up slowly.

**Operational challenges:** New technology requires replacing legacy systems, developing new processes and investing in staff training — time consuming and costly endeavours.

**Unintended consequences:** Since technology relies on data it can pose potential problems regarding data protection and privacy. On top of this, there are risks of unintended exclusion and other ethical and legal issues

The FATF has also updated their 40 recommendations to incorporate virtual assets (cryptocurrency, Non-Fungible Tokens, etc.) in risk assessments related to proliferation financing — the financing of weapons of mass destruction.

You can find all 40 of the FATF's recommendations on their website.



# Let Red Flag Alert Streamline Your AML Compliance

AML compliance is an ever-changing landscape, with amendments and new directives implemented each year.

If you don't keep up with regulatory updates, you risk severe fines and possible jail time for offences — even if they were a mistake.

To learn more about the many benefits of Red Flag Alert, book a demo or contact our team.

Call **0808 506 6554**

Email [sales@redflagalert.com](mailto:sales@redflagalert.com)



We know how complex AML compliance can be. That's why we created Red Flag Alert.

Red Flag Alert has all you need to conduct in-depth AML risk assessments and ensure your business stays compliant with UK money laundering regulations.

Red Flag Alert's AML service helps firms monitor for suspicious activity without disrupting their everyday commercial activities. Businesses that incorporate it into their new or existing compliance regime can count on:

A full range of risk level checking

Unbeatable match rates

ID verification

Enhanced due diligence

Sanctions and PEPs real-time screening

Monitoring alerts User-friendly interface

Secure audit trail

Red Flag Alert has over 20 years of experience in saving companies from bad debt, remaining compliant and achieving growth.

Our platform is available on a seven day free trial and will immediately protect and empower your business.

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