



National Risk Assessment of Money Laundering and Terrorist Financing 2020

Summary for CLC-regulated entities and lawyers

HMT and the Home Office published the third [National Risk Assessment \(NRA\) of Money Laundering and Terrorist Financing](#) on 17 December 2020. The report sets out the key risks facing the legal, accountancy and finance sectors and updates the findings of the 2017 NRA.

It also sets out the work that has been done to tackle money laundering since the publication of the 2017 NRA. This includes developing the economic crime public-private partnership, the inception of the Economic Crime Strategic Board, and the publication in 2019 of the Economic Crime Plan. Since 2017 we have also seen the creation of the National Economic Crime Centre (NECC) and the Office for Professional Body Supervision (OPBAS), as well as the introduction in January 2020 of the EU's Fifth Anti-Money Laundering Directive (5MLD).

The risks identified for the property sector have not significantly changed since the 2017 NRA. We have summarised the findings of the 2020 NRA here, for practices and lawyers to take into consideration when updating their own practice-wide risk assessment, as required by Regulation 18 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) (the MLRs).

Impact of COVID-19 (see Chapter 6)

The NRA recognises that crime and criminals have also adapted their operating methods as a result of the pandemic, giving rise to new threats and vulnerabilities. Findings that CLC lawyers should consider include:

- Increases in mobile-banking, e-payments and cash stockpiling by organised crime groups have been observed following the introduction of lockdown restrictions. Criminals might use the pandemic to justify unusual account activity and transfers, e.g. cash deposits under the pretence of cancelled holidays or purchases (at 6.6).
- Criminals may seek to exploit the current situation by investing in struggling businesses and/or purchasing property sold out of desperation or bankruptcy (6.12).
- Criminals may look to increase money laundering through property transactions while interest rates are low and sellers are more likely to accept lower offers (6.14).

Legal services (see Chapter 10)

Like the 2017 NRA, the 2020 NRA identifies legal services as being at high risk of money laundering and low risk of terrorist financing.

The services most at risk of exploitation by money launderers are still conveyancing, trust and company services, and client accounts.

Conveyancing

The 2020 NRA states there is no evidence that risks in the sector have changed since 2017. Conveyancing services related to residential and commercial property are still considered as presenting a high risk of abuse for money laundering. This risk increases further when legal service providers fail to comply with the MLRs or do not understand and mitigate the risks.

Property purchases are an attractive method to launder funds due to the large sums that can be moved and the low levels of transparency of ownership or source of funds. The purchases that pose the highest risk are those made by corporate structures or trusts based in secrecy jurisdictions due to difficulties with identifying beneficial owners. Increased use of these inherently complex corporate structures has been observed since 2017.

Those working in the conveyancing sector should also be aware that criminals use property transactions to layer criminal funds. This may be done by aborting transactions, manipulating values, and turning-around transactions in very short timeframes.

Geographic risks

Although more evidence is needed, it is likely that criminals favour locations with high-value residential property such as London, Edinburgh and university towns. London is considered particularly desirable for overseas entities to operate a residential or commercial base in. Commercial properties located outside of these regions can facilitate money laundering due to their high value and ability to conceal funds as legitimate commercial transactions.

Client risk

The 2020 Assessment states that corrupt foreign elites and PEPs continue to be attracted to the UK and especially London to disguise the proceeds of corruption. Property is commonly bought through complex structures of shell companies based in secrecy jurisdictions. This obscures the ultimate beneficial owners and also makes it difficult to determine the purpose and origin of the transaction.

Residential vs. commercial

Residential property continues to present a higher risk of money laundering than commercial property. This is likely due to higher client turnover and the relative speed and ease of residential transactions as compared to commercial. However, it should still be noted that complex and opaque overseas company structures are more commonly used for commercial property transactions.

In summary, conveyancers should be aware of the red flags indicating a higher risk of money laundering, which might include (but are not limited to):

- Clients obscuring their identity by purchasing through complex corporate structures that mask the ultimate beneficial owner/s.
- Purchases made without a mortgage and without verifiable source of income or wealth.
- Transactions involving multiple legal services providers.
- Clients deemed to be politically-exposed persons (PEPs) from high-risk jurisdictions, or those who have been charged with corruption offences.

Misuse and exploitation of client accounts

The 2020 NRA considers that the use of client accounts still presents a high risk of money laundering and is attractive to launderers as it breaks the audit trail. Criminals may use methodologies such as sham litigations and fraudulent investment schemes to put funds through client accounts.

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