

Research report - HMRC Context into:

**Understanding the businesses that
HMRC supervise under the Money
Laundering Regulations.**

Staff and stakeholder consultations, primary customer
research and using insight to improve performance.

In the UK, the anti money laundering regime helps detect, deter and disrupt crime. It does this, by reducing the abuse of legitimate businesses for money laundering and by providing the pathways for passing information useful to law enforcement. Money laundering refers to money or other assets that are obtained through criminal means and exchanged for clean money or assets.

HMRC is one of 28 Supervisors tasked with supervising relevant people and businesses who are covered by the requirements of the Money Laundering Regulations. The Money Laundering Regulations set out details of what relevant people and businesses need to do to protect themselves from being used for money laundering and when to report suspicious activity. HMRC is not responsible for all businesses and individuals covered by the Regulations, but we do work with other agencies who have responsibilities in the same field. For example HM Treasury is responsible for:

- the UK's participation in the Financial Action Task Force
- implementing EU Directives
- the Money Laundering Regulations 2007
- the cross-Whitehall strategy on terrorist finance in conjunction with the Home Office and
- financial restrictions under the Counter-Terrorism Act 2008

The Treasury is also responsible for implementing financial sanctions agreed by the United Nations and European Union. The Home Office is responsible for policy and legislation relating to the investigation and prosecution of money laundering, financial crime and fraud, and the obligations on businesses to report suspicious activity to SOCA under the Proceeds of Crime Act 2002.

Last year we commissioned a programme of work to improve the way we supervise companies under the Money Laundering Regulations. As part of this work a research report has been produced, "Understanding the businesses that HMRC supervise under the Money Laundering Regulations". This research has helped to improve the way we supervise those people and businesses that we are accountable for under the Money Laundering Regulations. It has helped us to better target our resources, focus our efforts on areas of greatest risk and provide a better service to our customers so that they can take the action they need to avoid being used for money laundering purposes.

Since the report was completed we have:

- Finalised a review of our organisational structure. This will mean that from the 1 April the team responsible for this work, the anti money laundering supervision in HMRC, will move to the Enforcement and Compliance part of our business. This will make sure they are based alongside other HMRC colleagues who are very experienced in taking a risk focused approach and ensuring the rules and regulations are enforced appropriately
- Improved co-operation and information flows with other supervisors and law enforcement agencies. This includes sharing information to action and inform future prosecutions
- Developed our strategic plans and operating principles. This includes a new customer strategy using customer segmentation techniques to better recognise the different customer groups and to focus current compliance work on areas of greater risk. This will

help ensure that individuals and businesses are addressed in the best way to help them to take the right action in order to help prevent and detect money laundering

- Improved our approach to risk assessment and targeting resources. A decision to move to a sectorised operation to assist our front line teams build their understanding of the commercial aspects and risks in each of the business sectors we supervise. This will help drive improvements in risk assessment and the targeting of our resources to our higher risk cases.
- Improved the integrity of the Register. This is an integral part of the ongoing change plan. Regulatory amendments in October 2012 widened the parameters for the Fit & Proper person test, and we are developing competence and capability elements to the test. The wider test parameters are already being used, resulting in a seven-fold increase in the number of refusals. This demonstrates that we are making good use of the Regulations to deter and disrupt the potential for businesses to be used for money laundering. Those businesses where the fit and proper test has been failed will not be able to trade. The potential for prosecution arises if they are later found to be trading.
- Helped make it easier for business by the use of “Smart” forms that have been introduced to help businesses improve the accuracy in the completion of applications to the register

We still have much more to do to better focus our effort in the effective supervision of individuals and business as part of the Money Laundering Regulations. Over the coming months we will continue to drive improvements in:

- The Integrity of the Register and improving the registration process for businesses and individuals. This will include developing a registration pack and looking at how we can improve the information we receive to better target our resources and identify risk
- Working with the FSA to join up the information we hold on our registers
- Developing a new process for monitoring business and individuals that have advised they are dormant/ not trading whilst continuing to pay registration fees, and standardise the action we take
- Implementing a business strategy which will involve risk profiling of customers and identifying high risk customers so that we can work with our partners and make the appropriate interventions
- Redesigning internal and external processes to reduce burdens on businesses whilst also exploring the possible development and introduction of information returns
- Building and developing a better understanding of supply chains
- Reviewing and improving the penalty processes currently in place
- Educating HMRC Criminal Investigation colleagues about regulatory investigations and evidential support.

We have made some great improvements since the research was completed. We will continue to build on this with our change programme over the coming years to ensure we continue to make it difficult for people to use businesses to launder money and to help businesses protect themselves from risk.