

# RUSSIAN CORRUPTION AND THE UK

*Transparency International UK's submission of written evidence to the Foreign Affairs Committee*

Transparency International UK (TI-UK) bases the following policy recommendations on robust, evidence-based research. Our experts are available to provide oral evidence to the Committee upon request.

## SUMMARY

The UK is a top destination for money laundering. The National Crime Agency (NCA) estimates that the level of illicit financial flows through the UK is well in excess of **£90 billion per year**.<sup>1</sup>

These large sums that come into the UK are often linked to Russian nationals, including **associates of Putin**. Whilst clearly not all wealthy Russians in the UK have grown rich by corruption, over the last decade or so, kleptocrats from Russia have continued to launder unfathomably large sums through the UK – money that has likely been plundered from state coffers and solicited in bribes.

The UK's **businesses and lax company law** have allowed this money to be stolen, our **banks** process these payments, our **property market** provides an attractive investment opportunity for these funds, and the financial secrecy available in our **Overseas Territories and Crown Dependencies** helps hide the paper trail. Loopholes in our immigration checks for wealthy investors will undoubtedly have allowed some of those complicit in these activities to gain residence and citizenship here.

In recent years the UK has taken positive steps toward addressing loopholes in the UK's anti-money laundering defences – in particular through the introduction of the UK's public beneficial ownership register and Unexplained Wealth Orders – but **further action is needed to end the UK's role in facilitating money laundering for the corrupt and other criminals**.

### *Key recommendations*

To stop the UK being used as a safe haven for the corrupt and their assets, the UK Government should urgently:

1. Accelerate its timeline for introducing a **public register** of the real owners of overseas companies being used to buy UK property and bid for UK Government contracts
2. Prohibit company-formation agents that are not registered with a **UK anti-money laundering supervisor** from setting up companies in the UK
3. Empower Companies House to **identify suspicious activity** in the company register
4. Bring the **Overseas Territories and Crown Dependencies** up to UK standards of beneficial ownership transparency
5. Require **up-front and public declarations** of legitimate income and legal sources of wealth by Tier 1 Investor visa grantees, and **perform checks** on applicants that were successful during the 'blind faith' period for this visa between 2008 and 2015

<sup>1</sup><http://www.nationalcrimeagency.gov.uk/publications/807-national-strategic-assessment-of-serious-and-organised-crime-2017/file>

## RECOMMENDATIONS IN DETAIL

1. The UK Government should accelerate its timeline for introducing a public register of the real owners of overseas companies being used to buy UK property and bid for UK government contracts.

The UK's property market is a prime destination for the corrupt and other criminals to hide their stolen wealth.

TI-UK has identified **176 properties worth £4.4 billion** in the UK that have been bought with suspicious wealth - over a fifth of which is wealth from Russian individuals.<sup>2</sup> The owners of these properties were only brought to light due to open source material, such as data leaks and court documents, and so this is likely to be just the **tip of the iceberg**.

At the 2016 Anti-Corruption Summit in London, the UK Government committed to introducing legislation by April 2018 that would bring greater transparency to the housing market by requiring overseas companies owning property here to publicly declare their real owners. Although this policy has wide support, the Government recently announced that it would now lay down a draft bill by Summer 2018 and formal legislation by Summer 2019 – **a significant extension of the Government's original deadline**.

### Key statistics

- Transparency International found £4.4 billion worth of UK property bought by those representing a high money laundering risk. We found this through looking at open source information (e.g. land registry, court documents, Panama Paper leaks etc.) so this is likely just the tip of the iceberg. **£940 million** of this figure is related to Russian individuals.
- Property is a popular 'asset class' for **Russian investment**, in 2013 Knight Frank placed Russians as the biggest spenders on property **worth more than £1 million** in London. More recently it appears that Russian investors are looking further afield as Clapham, Islington and Pimlico showed higher levels of Russian investment, rising from **two to 11 per cent of market share** in those areas between 2014 and 2015.<sup>3</sup>

### Case study: Igor Shuvalov, Russian First Deputy Prime Minister

*Property: Flats 138a and 138b, 4 Whitehall court, London*

*Suspected owner: Igor Shuvalov, Russian First Deputy Prime Minister*

*Estimated Value: £11.44 million*

In 2014 the First Deputy Prime Minister of Russia, Igor Shuvalov, published an anti-corruption declaration which showed amongst other properties, he rented a flat in London just 10 minutes' walk from the Houses of Parliament. Contrary to this, however, anti-corruption campaigner Alexey Navalny alleges that Shuvalov owns flats Flat 138A and Flat 138B in 4 Whitehall Court, which in total are **worth £11.44 million**.

Land registry documents show the properties are owned by Sova Real Estate LLC, which according to official records obtained by Navalny indicate is owned by Shuvalov and his wife. It is unclear how Shuvalov was able to afford the apartments. His 2014 asset declaration lists his official **salary as £112,000** meaning it would take him around 100 years to pay for these Westminster properties. The value of the flats also exceeds the joint wealth of Shuvalov and his wife, which are listed on his 2014 declaration as £634,000.

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<sup>2</sup>Of our £4.4 billion figure:

- UAE: 1.8 billion
- Russia: 940 million (a fifth of our 4.4 figure)
- Ukraine: 762 million
- Kazakhstan: 252 million

We have also identified properties we believe are owned by individuals in Azerbaijan, Nigeria, Libya, Pakistan and others.

<sup>3</sup>[Faulty Towers: Understanding the impact of overseas corruption on the London Property Market](#), Transparency International (2017)

When questioned about his ownership of foreign properties, Shuvalov acknowledged that he owned a number of properties through holding companies in a 2014 interview however Navalny claims he has never spoken publicly about the London property.

## 2. The UK Government should prohibit company-formation agents that are not registered with a UK anti-money laundering supervisor from setting up companies in the UK.

UK companies are being used to facilitate corruption around the world. Research by TI-UK identified **766 UK corporate vehicles alleged to have been used in 52 large scale corruption and money laundering cases amounting to £80 billion**. A quarter of these companies are still active.

Although the firms that set up these companies must by law be registered with an anti-money laundering (AML) supervisor if they are 'carrying on business' in the UK, one in four firms listed on Companies House's website as being authorised to electronically form companies en masse does not appear to have a UK supervisor, and the regulation of individuals and firms setting up UK companies but without a UK presence falls to the jurisdiction in which they are physically based.<sup>4</sup>

This means that firms with no UK presence can incorporate UK companies without any oversight from an AML supervisor – and **do not have to comply with UK standards for money laundering checks**. We have seen clear examples of where this has allowed non-UK agents to incorporate UK companies that have subsequently been used in large scale money laundering schemes.

### Key statistics

- UK companies can access the financial system and move illicit wealth with less scrutiny by using bank accounts in other countries. **90 per cent** of UK firms involved in a scheme which moved £63 billion of illicit wealth out of Eastern Europe had bank accounts in Latvia or Estonia.<sup>5</sup>
- Around half of the 766 companies TI-UK identified as having allegedly been involved in high-end money laundering were based at just **eight UK addresses**.<sup>6</sup>
- Trust and Company Service Providers (TCSPs) – firms that set up UK companies – filed just **77 of the 400,000** suspicious activity reports in 2016, which are designed to flag possible money laundering.<sup>7</sup>

## 3. The UK Government should empower Companies House to identify suspicious activity in the company register.

Companies House does not currently have adequate resources or powers to sufficiently monitor and ensure the integrity of company incorporation data that is submitted to them. This allows a **significant amount of false and misleading data** to be submitted to the company register, which keeps a public record of the beneficial owners of UK-registered companies. There is a risk that some of this misleading data is purposefully being submitted to obscure the identity of individuals using UK companies to launder money.

To ensure the integrity of the UK company register, the Government should empower Companies House to identify suspicious activity and provide it with the resources to build up its capabilities. This would enable

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<sup>4</sup>Under the previous Money Laundering Regulations (MLR) 2007 any individual or firm carrying on business as a TCSP in the UK is bound by the UK's MLRs. The MLRs 2017 clarified the situation under Regulation 9, stating that a company carries on business in the UK if that company's registered office (or if there is no registered office, the head office) is in the UK; and the day-to-day management of the carrying on of that company's business is the responsibility of that office or of another establishment maintained by the firm in the UK.

<sup>5</sup><https://www.occrp.org/en/laundromat/> [Accessed 12 April 2018]

<sup>6</sup>*Hiding in Plain Sight: How UK Companies are Used to Launder Corrupt Wealth*, Transparency International UK (2017, p. 26)

<sup>7</sup><http://www.nationalcrimeagency.gov.uk/publications/suspicious-activity-reports-sars/826-suspicious-activity-reports-annual-report-2017>

Companies House to take a more thorough approach to rooting out inaccurate submissions and assisting the Insolvency Service and law enforcement agencies in investigations into financial crime.

### Key statistics

- Just twenty people at Companies House police around four million firms' compliance with company law, **without proactive checks** made on the accuracy of the information submitted.
- Huge numbers of UK companies are created without any due diligence on who is setting them up. **40 per cent** of incorporations last year were done directly through Companies House, which does not undertake background checks on customers.

#### 4. The UK Government should bring the Overseas Territories and Crown Dependencies up to UK standards of beneficial ownership transparency.

Corrupt individuals can easily hide their identities, making it difficult for law enforcement agencies and others to detect or prove the origins of their illicit wealth. They often use complex webs of opaque corporate structures to launder their money through the UK. These legal entities, like companies or trusts, can be created in a matter of hours and used to conceal the real owner of funds being moved around the world.

There is a **very clear correlation between corruption cases and the use of these secretive corporate vehicles**. Anonymous companies are also used to launder corrupt and illicit funds into the UK.

Transparency about the beneficial owners of these companies has been identified as an important part of the solution to tackling the laundering of corrupt and illicit funds.

### Key statistics

- In 2011, a World Bank study found that **70 per cent of over 200 corruption cases** involved the use of anonymous shell companies to launder funds and conceal the true identity of corrupt politicians.
- In the UK, over **75 per cent of corruption cases involving property** investigated by the (then) Metropolitan Police's Proceeds of Corruption Unit (POCU) involved anonymous companies registered in 'secrecy jurisdictions'<sup>8</sup>. Of these, 78 per cent of the companies involved were registered in either the UK's Overseas Territories or Crown Dependencies.
- **57,318 UK properties** are owned by companies registered in the British Overseas Territories and Crown Dependencies - jurisdictions which don't publish beneficial ownership information.
- Polling consistently shows strong public support for ensuring transparency in UK-governed secrecy havens. Recent YouGov polling shows that **over two thirds of people think the UK Government should take this action**<sup>9</sup> with high levels of support across the political spectrum.

#### 5. The UK Home Office should require up-front and public declarations of legitimate income and legal sources of wealth by Tier 1 Investor visa grantees, and perform checks on applicants that were successful during the 'blind faith' period for this visa between 2008 and 2015.

There are strong grounds for concern that the UK's Tier 1 'golden visa' scheme<sup>10</sup> has been used as a tool to launder the proceeds of corruption from around the world.

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<sup>8</sup>Transparency International reached this statistic by looking at data from investigations conducted over a recent 10 year period. The POCU is no longer operational – it has since been subsumed into the International Corruption Unit in the National Crime Agency.

<sup>9</sup>[https://d25d2506sfb94s.cloudfront.net/cumulus\\_uploads/document/gai9julrov/OxfamResults\\_160926\\_Businesses\\_Tax\\_Website.pdf](https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/gai9julrov/OxfamResults_160926_Businesses_Tax_Website.pdf)

<sup>10</sup>In return for £2 million of qualifying investments, a foreign investor can receive a UK Tier 1 Visa and, after five years, permanent residency in the UK (for £5 million, the qualifying period is reduced to three years; for £10 million it is reduced to two).

An acute concern with the Tier 1 Investor visa scheme is the 'blind faith' period between the visa's inception and 6 April 2015, when individuals were not required to obtain a UK bank account before applying and being awarded a Tier 1 Investor visa. During this period, the Home Office relied on the commitment of the applicant to transfer his or her funds to a UK bank account after they were awarded the Tier 1 Investor visa, with the expectation being that the bank would carry out anti-money laundering checks. However, evidence suggests that UK banks used the fact that an individual had been awarded a Tier 1 Investor visa as qualifying evidence to overcome due diligence concerns when assessing an applicant's legitimacy.

As a result, **at least £3.15 billion** entered the UK through the golden visa scheme with minimal due diligence checks being undertaken on the source of these funds. When anti-money laundering checks were introduced to the scheme in April 2015, the number of applicants dropped sharply.

### *Key statistics*

- Capital Flight escaping from Russia rose to record levels in 2015, with **\$131 billion** leaving the country<sup>11</sup> and \$110 billion expected to have left during 2016.<sup>12</sup> A study by Deutsche Bank, using figures from the Russian Central Bank and Bank of England, indicates around £100 billion of Russian wealth secretly flowed into the UK between 2006 and 2015.<sup>13</sup>
- **A minimum of £700 million attributable to Russian nationals** entered the UK during the 'blind faith' period of the Tier 1 Investor visa scheme.

## ABOUT TRANSPARENCY INTERNATIONAL UK

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption.

Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK.

We work in the UK and overseas, challenging corruption within politics, public institutions, and the private sector, and campaign to prevent the UK acting as a safe haven for corrupt capital. On behalf of the global Transparency International movement, we work to reduce corruption in the high risk areas of Defence & Security and Pharmaceuticals & Healthcare.

We are independent, non-political, and base our advocacy on robust research.

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<sup>11</sup><https://themoscowtimes.com/articles/russia-massive-capital-flight-continues-46263> [Accessed 10 April 2018]

<sup>12</sup><https://themoscowtimes.com/articles/110-billion-expected-to-flee-russia-this-year-as-sanctions-bite-46950> [Accessed 10 April 2018]

<sup>13</sup><https://assets.documentcloud.org/documents/3036316/Special-Report-9-Mar-2015-2.pdf> [Accessed 13 March 2018]