THE TIMES

COMMENT

Fighting money laundering may end up helping it

Proposed reforms to Companies House aim to validate the authenticity of businesses, but are unlikely to achieve very much

John Binns
Thursday September 24 2020, 12.01am, The Times

What has Companies House got to do with money laundering? Few, perhaps, will see any obvious connection between the dry formalistic requirements for information and documents, nowadays largely available for free on a neat and easily navigable website, and the murky world of hiding the proceeds of fraud and other serious crime.

But in a sense that is precisely the point. The UK's regime for requiring information from companies, which now extends to the details of their "persons with significant control" (PSC), carries with it an impression of transparency. The fact that companies are incorporated here will help those who encounter and do business with them feel confident that they are dealing with legitimate enterprises — even when they are not.

This has increasingly been recognised as a valuable service for money launderers, provided unwittingly by the UK state, which sits uneasily next to our generally strict anti-money laundering regime. Those at banks and others with anti-money laundering responsibilities know well that the heart of the problem is that Companies House relies entirely on information provided by the companies themselves; other than some purely technical issues, it does not make any checks. The government now proposes to make an important change to this system. All directors of companies, and indeed everyone submitting information on their behalf — although not PSCs — will have to provide "know your customer" documents, such as driving licences or passports, to prove their identity. In most cases, the government envisages that these will be provided electronically and verified within 24 hours.

The plans raise various questions, not least about the efficiency and reliability of the verification process and who will run it. While such documents in the UK can in theory be checked with other agencies, it is less clear how the process will work with directors and agents who are based overseas.

Importantly, those who work with the anti-money laundering regime know well that the documents are only the first step of a due diligence exercise; simply knowing who company directors are does not guarantee that they, their associates or their sources of funds are clean.

The risk is that this important, probably necessary, step forward will involve a lot of extra time and expense with not an awful lot of benefit. The most experienced and serious launderers will doubtless not find it too difficult to find an individual or legitimate-looking document to clear this fairly basic hurdle.

To the outside world, meanwhile, the impression that UK companies are transparent and legitimate will be enhanced. That impression, unless and until it is matched by a genuinely robust system, will continue to be of immense value to money launderers.

John Binns is a partner at BCL Solicitors in London

https://www.thetimes.co.uk/article/fighting-money-laundering-may-end-up-helping-it-glb825pfq?utm_source=newsletter&utm_campaign=newsletter_121&utm_medium=email&utm_content=121_10614411&CMP=TNLEmail_118918_10614411_121