

UK businesses gear up for new money-laundering regulations

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Economic Secretary, Kitty Ussher, has announced new regulations to combat money laundering and the financing of terrorism. The Government's financial crime strategy estimates that organised crime currently costs the UK £20bn in social and economic harm each year.

"These regulations will strengthen further the UK's defences against money laundering and terrorist finance," said Ms Ussher. They are designed to ensure the UK response to money laundering at home and abroad is "effective and proportionate".

The Money Laundering Regulations, which come into effect on 15 December 2007, are the UK's response to the EU Third Money Laundering Directive. They are based on the Government's consultation with both the private sector and law enforcement on the draft regulations, published in January 2006.

"In line with the Government's financial crime strategy, these regulations introduce tough and targeted new measures where the risks are greatest, and at the same time ensure that businesses and consumers in low-risk situations face fewer burdens than previously," she said.

The measures extend supervision to all businesses in the regulated sector, which includes the financial sector, and professionals such as lawyers and accountants, to secure greater compliance with anti-money laundering controls. For the first time, estate agents, trust and company service providers, and consumer credit businesses will be included.

There will be strict tests to ensure money services business, and firms that help set up and manage trusts and companies, are not run for criminal purposes. This will require extra checks on customers that pose a higher risk of money laundering (for example foreign heads of state and non-face-to-face customers).

Counting the cost

A recent study (July 2007) by LexisNexis shows that over half of UK businesses believe they will benefit from the regulations, which are considered to reduce the likelihood of falling victim to financial crime. However, a large proportion of UK companies are concerned about the cost of complying with the new regulations and the impact on UK competitiveness.

The research reveals that 42 per cent believe the new regulations will require additional financial investment and a quarter believe the regulations will undermine the competitiveness of the UK economy. For those businesses where additional financial investment is required, 40 per cent claim their overall due diligence costs will increase by as much as 10-29 per cent.

Nevertheless, UK firms have already started to make significant investment to prepare for the regulations introduction at the end of the year, despite official guidance from industry bodies on how to comply with the proposed measures not being available yet. Prompted by concerns over the costs of non-compliance (both in exposure to financial crime and the impact on business reputation) nearly two thirds of UK businesses have already invested in additional training for staff.

The poll highlights the principal concern facing nearly half of all businesses as the reputational risk if found to be non-compliant. The second most important concern, for a third of businesses, is the financial risk if fined due to non-compliance; failure to comply with these regulation could lead to fines, business closure and even prison.

Mark Dunn, business consultant, Risk and Compliance, at LexisNexis, said: "Businesses are sceptical about the Money Laundering Regulations but are pragmatic enough to know that early action to comply is preferable to the high costs of financial crime.

"The regulations are trying to combat a very real and pressing issue for the UK – money laundering and in particular its use to finance terrorism – and it's encouraging that over half of businesses believe that the new regulations will mitigate the business risk of being exposed to the threat of financial crime and money laundering."

It is important that businesses are fully prepared for the new regulations in the time between their industry bodies publishing the guidance and the implementation date in December. The regulatory authorities are likely to clamp down hard on businesses that do not adhere to the new regulations so companies need to make sure that they don't run the risk of being penalised. At the same time, this provides an opportunity to review existing due diligence processes – and potentially to improve efficiency and save money along the way.

Susan Grossey will lead an *ifs* School of Finance Masterclass entitled "Keeping your balance: recent and proposed changes to the UK's anti-money laundering regime" on Thursday 8 November 2007.

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