HOUSE OF COMMONS

Business and Trade Committee

Oral evidence: Implementation of Economic Crime and Corporate Transparency Act 2023, HC 522

Tuesday 6 February 2024

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Watch the meeting

Members present: Liam Byrne (Chair); Jonathan Gullis; Antony Higginbotham; Ian Lavery; Anthony Mangnall; Julie Marson; Mark Pawsey.

Questions 95 – 128

Witnesses

II: Graham Barrow, Director, The Dark Money Files; Rachel Davies Teka, Advocacy Director, Transparency International; Ben Donaldson OBE, Managing Director of Economic Crime, UK Finance; Kathryn Westmore, Senior Research Fellow, Royal United Services Institute.

Examination of witnesses

Witnesses: Graham Barrow, Rachel Davies Teka, Ben Donaldson and Kathryn Westmore.

Q95 **Chair:** Welcome to the second panel in our hearings on the implementation of the Economic Crime and Corporate Transparency Act. Thank you very much indeed to our witnesses for coming in. Thank you for all the work you have done over the years in helping set the climate and bring forward the ideas, some of which were enshrined in this Act.

Mr Barrow, I wonder whether I can start with you, if I might. In 2022 you told the Committee that identity theft and fraudulent company registrations were a significant issue on a significant scale. Companies House did not give us a sense of what they thought the scale of this abuse was. Can you just tell us whether you think anything has changed since 2022? Are you more worried? Are you more relaxed?

Graham Barrow: I am definitely not more relaxed.

Chair: Why not?

Graham Barrow: It is very hard to say. I have become something of a focal point for people who have suffered fraudulent registrations. I probably hear about more. I would be careful to say that there are definitely more, but not a single day goes past without me receiving an email, text or message through social media from somebody whose name, address or both have been used fraudulently to register a company. At the human level, it has got worse.

Q96 **Chair:** Is it much worse? Give us a sense.

Graham Barrow: I have some figures, if you would like to hear them.

Chair: That would be helpful, yes.

Graham Barrow: In 2018, 667,000 companies were registered, of which 330,000 never made another filing. That is nearly 50% of all companies registered. That carries on from 2018-19 until 2021-22. It is quite hard to talk about more recently because it is too early to say how many are going to get struck off without making another filing. It looks like somewhere between 40% and 50% of all companies register but never do anything else. Lots of those are going to be because the business fails, but I do not think it is approaching half. That gives us some sense of how many are not registered for any obvious commercial purpose.

I can give you examples. There is a street in Liverpool where, in the last few weeks, nearly 100 companies have been registered to various numbers, every one of which is a real estate agency registered to somebody from Spain. About 80 people in one street have received a letter. That is genuinely just a tiny fraction of what is currently going on.

Q97 **Chair:** This morning we heard some quite surprising news about how long it is going to take to implement the new verification software for new and existing filings. What was your reaction to that?

Graham Barrow: I am really concerned for a couple of reasons. First, a substantial number of companies are incorporated using stolen identities. The system will need to accommodate that. I want to make a really important point. As Mr Swain said very clearly, company registrations are now done electronically. They are not actually seen by human eyes. It is exactly the same for banks when people open corporate business accounts.

There is a real challenge here. If we fail to prevent companies from appearing on the register at all, they only need to be on the register for, frankly, minutes for somebody to open a bank account electronically and for that bank to check whether there is a registration, which there will be. If it is a stolen identity, it will then go through the standard credit checks. I know of companies that have been incorporated, opened a bank account and cleared out an £8,000 overdraft in 24 hours.

We have a system that reacts post facto to registration. Most of these are what I call burner companies. They will have done what they intend to do and gone even if we recognise within a day or two that it was a fraudulent registration.

Q98 **Chair:** Does the verification system need to be implemented more quickly?

Graham Barrow: Yes. I would also caution that it is not going to be a panacea for all ills. When I am asked about that, I say that this is the system that the banks have been using for 20 years. It is not preventing criminals from having access to the financial system. It is really important to add that caveat. It is a vital step, but it needs to be contextualised. It is not going to stop all of this from happening.

In terms of the human cost of what is happening, these people have no agency. You get a letter, and that is the first you ever know about it. At least 10,000 to 12,000 people a year receive those letters. I suspect that that is an underestimation.

Q99 **Chair:** I do not know whether you have had a look at the *Financial Times* story from this week about sanctions evasion. Will the verification regime that has been proposed stop problems like the problems surfaced in the *Financial Times* yesterday?

Graham Barrow: I am not sure it will, if there are still willing participants who are prepared to provide their name, address and other verifications to incorporate a company.

I looked at both of those. They did not have any obvious filing issues that, from a Companies House point of view, would have raised a red flag. If you were to simply monitor the company and its ongoing history of filings, I am comfortable that there would be no obvious problem.

There is an intelligence-led requirement that needs to tie in with Companies House, which will allow them to understand the broader picture.

Q100 **Chair:** Is the picture that you are painting of a problem that is getting worse, or it is just bad and staying bad?

Graham Barrow: It has been bad for decades. One of the pivotal moments was 2016 when the register was opened up for public scrutiny. That was extremely helpful. Companies House launched an advanced search function, which, from my point of view, made it much easier to interrogate their data. That was very helpful. It revealed a systematic and extensive abuse of UK companies and corporations that has been going on probably for at least 20 years, if not longer. I think it is accelerating.

Q101 **Chair:** You think it is accelerating.

Graham Barrow: I think so. That could be about frontrunning the legislation. The amount of publicity that the problem has garnered has had a detrimental effect because it has attracted the attention of other organised criminal groups, who have thought, "That is handy. Let us have a go at that."

Q102 **Chair:** We had a brief discussion about the loophole of limited partnerships. Is that something that you have looked at?

Graham Barrow: Yes, extensively. I worked with the BBC on that story, so I know it intimately. It is concerning because a lot of those limited partnerships were allegedly asset-holding. They have no legal personality, which means they cannot hold assets.

There are lots of, for example, Scottish limited partnerships that do have legal personality, but they have PSCs, or they do not have a PSC because they have five limited partnerships as their shareholders, which is not possible because, again, they cannot hold assets. The whole system is being abused by criminals, who are very quick to work out what those loopholes are.

I also happen to agree that somebody has to run a company. Even if you do not call them a PSC, somebody has ultimate or significant control. It does not have to be through ownership. It can be just through the direction of the company. There should be an accountable person for any company that appears on the register.

Q103 **Chair:** How problematic is that loophole?

Graham Barrow: It is massively problematic. The number of limited partnerships has almost taken over from the number of Scottish limited partnerships, which had a very bright light shone on them. There are a very significant number of them. That is partly because you see the same names inscribed on the registration documents time and time again.

Those registration documents are paper-based because we do not have an electronic filing system for LPs.

Q104 **Chair:** Are some of those limited partnerships being used for sanctions evasion?

Graham Barrow: Yes.

Q105 **Chair:** You are in no doubt.

Graham Barrow: Yes. Whether that is Iran or the former Soviet states, I am pretty sure they are. They are also being used for highly corrupt activity in other countries where an English, Welsh or Northern Irish limited partnership is just seen as another form of entity.

Q106 **Chair:** Unless we change the law, the problem will persist.

Graham Barrow: I believe so, yes.

Q107 **Chair:** Have you seen any evidence of the kinds of organisations that are promoting limited partnerships?

Graham Barrow: Yes, I have seen them advertised on Russian websites, for example. These are off-the-shelf limited partnerships.

Q108 **Chair:** This loophole is being actively marketed by Russian company service providers.

Graham Barrow: In my opinion, yes.

Q109 **Chair:** That is all very alarming. Kathryn, I wonder whether you could just tell us, from your perspective, what has happened to economic crime since the covid pandemic. You have gone on the record before to say that you have seen a huge increase. Could you unpack that for us?

Kathryn Westmore: Yes, absolutely. Since the pandemic there are probably two areas that I would point to that are having a really significant impact on economic crime in the UK.

The first is fraud. Graham has talked about how Companies House has facilitated fraud, but during the pandemic and since, we have certainly seen a huge rise in fraud in the UK. I am sure the statistics will be familiar to Committee members. Some 40% of all crime is now fraud. It is the crime that you are most likely to experience.

Companies House and the deficiencies there have been drivers of that, but things like the rise of technology, including generative AI, have increased the extent and scale of fraud. The use of social media and online platforms has facilitated fraud, along with some of the changes that we have seen in the banking sector in terms of the embrace of faster payments, which has led to an increase in fraud. That real, significant increase has had a huge impact on individuals, businesses and broader UK national security.

Q110 **Chair:** I just want to clarify something you said. You said Companies

House was a driver.

Kathryn Westmore: The ability of criminals to either steal people's identity and set up fake companies or to launder the proceeds of fraud through Companies House has been a really significant driver from a fraud perspective.

Graham has touched on identity theft as a huge issue. We are certainly seeing criminals using Companies House to set up fake investment companies, for example, which they use to promote fake investment schemes. Somebody looking at a company and seeing that they are registered on Companies House may think it appears to be a legitimate financial services provider or investment adviser. Therefore, they are more likely to fall victim to an investment scam. We have seen widespread abuse of Companies House linked very much to the rise of fraud.

Q111 **Chair:** What is your current estimate of the value of economic crime?

Kathryn Westmore: You could pick a number and it would probably be an understatement. There are a number of different estimates out there. I know that the NECC and the NCA have produced some. We have some estimates from UK Finance as to the scale of fraud, but realistically economic crime, fraud and the associated money laundering and other types of crime are always under-reported. It is very clear that to get an accurate picture of the damage to—

Q112 **Chair:** Can you give us a sense of what you think it might be?

Kathryn Westmore: Realistically, the impact on the UK's economy, on an annual basis, is in the billions, if you consider all types of economic crime, including things like sanctions evasion.

Q113 **Chair:** We have just heard that we are spending £20 million extra on Companies House to tackle this multibillion-pound problem. Is the policy response big enough, given the scale of the problem?

Kathryn Westmore: Certainly in relation to Companies House I share many of the concerns that Graham has highlighted. When you look at the amount that is being invested in Companies House, it does not feel commensurate to the risk that the abuse of Companies House has posed, not least from a financial perspective.

I also share some of the concerns around the loopholes and how easy some of the new measures in place might be for criminals to exploit or get around. For example, we talked in the earlier session about authorised company service providers. It only takes a few authorised company service providers that are willing to open and register companies without the proper ID&V checks for that to become an issue.

Q114 **Chair:** How much would you increase investment in Companies House? We have heard it is £20 million or £63 million over a couple of years. What is the order of magnitude that it is wrong by?

Kathryn Westmore: This is just my personal opinion, but I think you would want to put a couple of hundred million pounds, maybe £200 million, in there to put in place the strong controls that you need. For example, we are going to see generative AI impact the way in which Companies House is able to detect fraudulent identities. It needs to have really strong technology-based controls to prevent that. There is also a huge job to do a look-back exercise at the companies that are registered. We know how many companies are registered, many of which either should not be on there or have persons with significant control who are frankly ridiculous.

Q115 **Chair:** That is an order of magnitude bigger than the investment that is currently proposed.

Kathryn Westmore: Yes, absolutely. Five, if not more, times the investment that is proposed would be a realistic figure, if we really wanted to clamp down on the abuse of Companies House and other, associated issues, whether that is limited partnerships, trusts or the register of overseas entities.

Q116 **Ian Lavery:** I want to ask about the fight against economic crime. UK Finance has argued that there is—they are being extremely polite—an asymmetry in funding for economic and financial crime that could undermine the public-private service delivery model. That is what being said.

They say that they spend £5 billion on UK financial crime compliance. In addition to that, they say they pay £1.5 billion to tackle fraud. Those are colossal sums. They are suggesting that the Government are perhaps not pulling their weight or paying their way, as the saying may be. Mr Donaldson, is that the case? Are the Government providing sufficient money to implement ECCTA effectively?

Ben Donaldson: Our industry spends an enormous amount of money on the fight against economic crime, as you rightly say, including the £100 million we pay every year for the economic crime levy. Some of that is being used to fund the Companies House effort.

In some aspects of the plan going forward, the responsibility has shifted too much to the private sector. The verification question is an interesting one. We want a robust central register that gives us a high degree of confidence from the centre. We can then complement that with our own Know Your Customer checks. At the moment, it can feel like it is the other way around, which we think is wrong. It is a less effective model and it ties up resources in the industry that could be devoted to more impactful outcomes. That is one of the reasons we are fully supportive of Companies House reform.

More broadly, ECCTA was a great achievement and a great outcome. We have articulated in a previous evidence session that we wished the verification aspect of this had gone further, but we are keen to help. One of the ways that we are investing in trying to support this is through our industry's corporate transparency working group, through which we stand ready to help. As soon as Companies House needs us to work with it on some of the practical delivery, we are here to help. We are fully supportive because this has benefits across every aspect of economic crime if we get it right.

Q117 **Ian Lavery:** Do you think they are paying their way? Could it be better? Should it be better?

Ben Donaldson: Economic crime is such a huge threat that we could always invest more. With the resources that we have available, from our perspective, it is a question of allocating the money that is currently available. With the economic crime levy, it is a question of how we allocate those funds.

If there were more funds available, I am sure Companies House might be able to make progress more quickly. From our perspective, it is a question of allocation rather than additional funding. That is with the slight caveat that our Companies House colleagues were talking about their budgetary planning in the earlier session. Some clarity is awaited on that front.

Q118 **Ian Lavery:** You are not saying whether you think they are paying their way or not. Never mind.

Rachel, I wonder whether you have any statistics or figures on how the UK's budget to tackle economic crime compares with the sums spent by other developed economies.

Rachel Davies Teka: I am afraid I do not have those figures to hand, but it is worth noting the role that the UK plays as an international money laundering hub and some of the unique challenges that it faces.

To add to some of what my colleagues have said, £400 million was announced in the new economic crime plan. That is over three years, so that is £133 million. None of that is new money. That is coming from the economic crime levy. That money had already been announced in the 2021 spending review.

I was encouraged to hear from Companies House that it has done some internal modelling, which I have not seen, and it feels like there is perhaps enough money for it to progress, although there is going to be some delay on verification. I would really encourage the decision makers in Government to increase the fee to what it needs to be. Even if they increase the fee for company incorporation to £100, that is still incredibly competitive. You mentioned the average cost in Europe. The last time I checked the figure in Canada, for example, it was the equivalent of £130. In the BVI, it is £375. In Australia, it is £310.

It is important to acknowledge that there are lots of officials working really hard behind the scenes in DBT and Companies House. They have a colossal—you used that word—effort to deliver this enormous transformation of their own body. I really hope they will be sufficiently resourced to do that.

There are also questions to be asked, as you have touched on, around LPs, the legislative architecture and whether the Economic Crime and Corporate Transparency Act—it is an Act now—and the associated reforms, such as the register of overseas entities, have been set up for success. I am glad that we are talking about the loopholes today.

Q119 **Ian Lavery:** You mentioned the resourcing of Companies House. Are there additional funding streams that could be accessed to resource Companies House?

Rachel Davies Teka: Yes. Our colleagues at Spotlight on Corruption, which submitted some evidence to this Committee as part of this hearing, have done some work around this. They have some really interesting suggestions, which again are sustainable. The Minister mentioned not wanting to use more hard-working taxpayers' money, but there are sustainable ways to resource this.

For example, Spotlight has suggested utilising regulatory fines and investing that back into the fight against economic crime, as well increasingly using confiscation of assets and investing those back into the fight against economic crime. You could end up with a virtuous circle: the more you invest into the fight against this, the more you will then recover. It could almost pay for itself. There are things that should be on the table and that I hope decision makers in Government will be looking at in order to further resource this.

Q120 **Ian Lavery:** Do you think the Government are paying their way?

Rachel Davies Teka: It is interesting. You have the NCA on the next panel. Maybe you will ask them this question about their resourcing. Back in 2019, the former NCA director estimated that the fight against economic crime should cost £2.7 billion. That is how much you need across the system to tackle this. She said that £1 billion of that should be for the NCA, which is another 50% on top of the funding that they already have. She certainly did not think so, but it would be interesting to hear the thoughts of law enforcement on that.

Q121 **Mark Pawsey:** Chair, may I just ask about the fee for registration? We know it is £12. The Minister was talking about £50. Rachel, you have just spoken about £100. Could I ask the others where it should be? What is the danger in setting the fee too high? Is there a danger, Mr Barrow, in setting it too high?

Graham Barrow: If someone wants to start a company, £100 or £150 is not going to stop them from doing that. It costs £55 to register a new car. We are saying that you can register a company, which can do far more economic damage than a car ever can, at a lower rate than the cost of registering a car. That seems to be sending the wrong message.

We want to encourage entrepreneurship, but, if half of all companies do not survive 18 months anyway, we have got our sums wrong. I would certainly set the fee substantially higher than £50. No one embarking on their next unicorn venture will be put off by having to fork out £100 when they probably spend that on a good night out or a football ticket at the weekend.

We are having the wrong conversations. Genuinely, we are. It is not going to be a disincentive if it goes too high. I do not believe that is true.

Ben Donaldson: I would agree. It has to be increased. They were talking about a figure of £50. The industry view is £50 to £100. Personally speaking, it sounds like a good idea for it to be closer to £100.

The argument against it, as Graham says, is about the barrier to entry for entrepreneurs. We do not want to introduce that. I get that a balance needs to be struck, but it has to be increased to a sensible level from where we are now.

Kathryn Westmore: I would echo that. When you compare it to the international comparators that Rachel has spoken about, at least £100 seems entirely reasonable.

Ian Lavery: It is £92 to register an XL bully. I simply make the point.

Q122 **Chair:** Can I just check something, Mr Donaldson? You said you wish the Government had gone further on verification. Just tell us what you mean there.

Ben Donaldson: Verification is one of the key preventative measures. Looking at the system as a whole, the more we can do at the prevention stage of the problem, the better. If we can do everything that we reasonably can to stop people introducing risk to the system in the first place, that has to be a good thing. Introducing verification measures is a positive step, but the more robust and sophisticated they are and the better use they make of technology—

Q123 **Chair:** Implicit in your answer is that you are worried they are not robust enough and you might be worried that they are not going to be implemented fast enough. Just speak candidly about where you think the weaknesses are.

Ben Donaldson: The speed of implementation is absolutely a risk.

Q124 **Chair:** Is the timetable that you heard this morning too slow for your liking?

Ben Donaldson: Yes. The sooner we could do it, the better. Everybody with an interest in this will benefit from a more robust and effective Companies House regime. Certainly we do as an industry. Having that at the beginning of the process reduces the risk of risk being introduced into the system.

Q125 **Chair:** Why are you worried about the robustness?

Ben Donaldson: It is the potential for loopholes such as whether corporate service providers can be used to circumvent some of the verification checks. That will be about how far the verification checks are going to go and whether they are going to be done in a robust enough way. We are interested in working with Companies House to make sure we can understand that.

Q126 **Chair:** Why are you worried that they are not going to get it right? Is it because you do not know what they are proposing?

Ben Donaldson: We would like to see more of the detail of exactly how it is going to work. That is one of the things that we are keen to work with them on going forward. We want to make sure that anything we are doing from a Know Your Customer perspective is complementing what they are doing from the centre.

Q127 **Anthony Mangnall:** Chair, we have probably covered quite a lot of this already. Rachel, does the legislation go far enough? Do we need to be reintroducing things? Are you observing any loopholes at this present point?

Rachel Davies Teka: I am very happy to talk about that. This legislation, and the associated legislation and reform, is a huge step forward. It is to be applauded, and we have applauded it. It is great, particularly the register of overseas entities, which is connected to this legislation. We are already seeing some benefits.

However, some gaping loopholes have been left. You have already talked about limited partnerships. This is something that we raised during the passage of the Bill. There was some noise saying, "Well, no one is really going to exploit that. That is not really going to be a problem." Finance Uncovered, the BBC and Bellingcat have already exposed this. The BBC story in November indicated that people in the circle of Vladimir Putin were using them to move assets.

The other massive loophole that we see that is related to these reforms is around trusts, which was referred to within this legislation and the legislation before as well. In the UK, if you own a property through an overseas entity, your real identity is now displayed on Companies House, unless there is a trust within that chain of ownership; then that is not available publicly.

The Economic Crime and Corporate Transparency Act did include a clause to empower the Secretary of State to give certain groups access at a later date. This has not been done yet. That does not include public access. I will say that we—specifically our investigations lead, who is sitting just behind me—have found multiple instances of legal firms advertising this loophole on their websites and talking about how it is a great way to avoid disclosing who owns these companies and assets.

There is a consultation out at the moment. The Government published it at the start of this year or just before Christmas. That includes an option for the owners of these properties, where there is a trust in the ownership chain, to be made public. That is what we would recommend. That would enable civil society, journalists and law enforcement overseas that are undertaking incredibly important investigations to access this information easily without having to go through a lengthy request process.

I really hope that we look at trusts and limited partnerships. We really need to make sure that we do not bury our heads in the sand in the UK and pretend these are not problems. They are. Hopefully we can counter them head-on.

Q128 **Anthony Mangnall:** Just as a quick follow-up—perhaps, Graham, you would like to come in on this after Rachel—the Government decided to place the focus on large organisations rather than small businesses. Has that restricted the scale of the problem that we are seeing? To what extent are the measures that we have passed into the Act effective if we are only focusing on organisations turning over more than £36 million, with total assets of more than £18 million and an average of more than 250 employees? I think that is the definition.

Rachel Davies Teka: What is this in reference to specifically?

Anthony Mangnall: In relation to the ECCTA, the focus was to restrict the scope to large organisations. The Government have described the Act as "too onerous" on smaller enterprises.

Chair: This is the failure to prevent.

Rachel Davies Teka: In terms of verification and beneficial ownership, that applies to all UK companies. I know the failure to prevent is something that you have worked on, Kathryn.

Kathryn Westmore: Yes, I am happy to touch briefly on the failure to prevent. Failure to prevent fraud, as you rightly say, is a new offence introduced under the Act, but it only applies to large organisations.

I appreciate that there was some discussion and debate during the passage of the Bill as to whether that should apply more broadly to all companies, which we have seen in other failure to prevent offences around bribery and the facilitation of tax evasion, where it applies to companies regardless of their size.

Certainly, our position would be that that clause is unhelpful. Fraud is not just an issue that impacts large companies. The purpose of the failure to prevent fraud offence is to deal with the corporate behaviour that we have seen around things like mis-selling, accounting fraud, fraud that benefits a company directly. That kind of behaviour is not limited to large organisations; it applies across the board. Small and medium-sized enterprises are just as likely to be engaged in that kind of fraud. That has a hugely damaging impact on the UK's economy, and there is the loss of jobs when companies go under because of these huge frauds.

We did certainly feel that that exemption should not apply. From my personal experience of working on other failure to prevent offences, the points made around the burden on businesses did not really make sense to me, given that fraud prevention controls should be a core part of any business, regardless of its size.

Chair: Time is against us. Thank you very much. I am going to conclude that panel here. Thank you so much for your evidence. You have told us that economic crime is a very significant problem. It sounds like it is getting bigger. None of you seems to think that the response is commensurate with the scale of the problem. You have told us about loopholes when it comes to limited partnerships, the verification software and process, trusts and the failure to prevent duty. We have also heard that you do not think we are implementing this Act quickly enough. That has set the stage nicely for our final panel with enforcement agencies. Thank you very much indeed.