

# Treasury Committee

Oral evidence: [Economic crime](#), HC 145

Thursday 8 July 2021

Ordered by the House of Commons to be published on 8 July 2021.

[Watch the meeting](#)

Members present: Mel Stride (Chair); Harriett Baldwin; Felicity Buchan; Dame Angela Eagle; Siobhain McDonagh; Alison Thewliss.

Questions 199 - 266

## Witnesses

**I:** David Clarke, Chair, Fraud Advisory Panel; Richard Piggin, Head of External Affairs, Which?; Helena Wood, Associate Fellow, RUSI Centre for Financial Crime and Security Studies; Duncan Hames, Director of Policy, Transparency International UK.

Written evidence from witnesses:

[RUSI Centre for Financial Crime and Security Studies – ECC0043](#)

[Transparency International UK – ECC0051](#)

[UK Anti-Corruption Coalition and Transparency International UK – ECC0055](#)

[Which? – ECC0062](#)



## Examination of Witnesses

Witnesses: David Clarke, Richard Piggin, Helena Wood and Duncan Hames.

Q199 **Chair:** Good morning and welcome to the Treasury Select Committee evidence session on economic crime. We are going to have a particular focus this morning on consumers and campaign groups, and I am very pleased to be joined by four witnesses, who I am going to ask to very briefly introduce themselves to the Committee please.

**David Clarke:** Good morning. Thank you very much for inviting me to speak. I am David Clarke, chairman of the Fraud Advisory Panel charity. We are the voice of the counter-fraud community. I also chaired during the pandemic the Fraud Advisory Panel's Covid-19 fraud watch taskforce with Cabinet Office, police and others across the UK. I am a former City of London policeman. I was head of the National Fraud Intelligence Bureau and set up the lead force for fraud working with the Attorney-General. Before that, I was a military veteran. My day job is with a company called Guildhawk, a Queen's Award-winning technology business.

**Chair:** That was very good and very succinct. Thank you very much, David.

**Richard Piggin:** Good morning. My name is Richard Piggin. I am head of external affairs and campaigns at Which?. Which? is an independent consumer organisation. We are the UK's consumer champion.

**Helena Wood:** Hello, my name is Helena Wood. I am an associate fellow at the Centre for Financial Crime and Security Studies at the Royal United Services Institute. We are a defence and security think tank based on Whitehall.

**Duncan Hames:** Morning, I am Duncan Hames, the director of policy at Transparency International UK, part of a worldwide anti-corruption campaign. In the United Kingdom, that also causes us to take a close interest in money laundering, particularly the proceeds of corruption, and measures to enforce economic crimes, including bribery.

Q200 **Chair:** Thank you very much and welcome to the Committee. Thank you for coming. The first question is to all of you really, but perhaps I can start with David. How are the Government doing in terms of delivering on the economic crime plan that they brought forward in 2019?

**David Clarke:** The plan is a welcome step. It was good to see it coming in. The concern we have is that fraud does not feature enough in it. I know RUSI has a tracker, which is fantastic, tracking those actions, and Helena will probably be able to explain more about that. There are just too many agencies involved in the fight on fraud. We are siloed. It is a real pickle.



## HOUSE OF COMMONS

The economic crime plan was a bit late coming in. There are other things we would have liked to see. It is good that it is here, because we face the worst financial crime threat to the United Kingdom and, indeed, the globe. It is probably worse than 2008.

We are also concerned that only seven of the 52 actions in that plan relate to fraud, and this seems to be systematic of fraud over the years. I have been involved in fighting crime for 41 years this year. It always seems to be a last afterthought, and we do not always get to the depths of the problem. We are in a real pickle.

Also, there is just no ownership. We do not have ownership and accountability. We would love to see a real deep look at this and have a Minister accountable for economic crime, or even a commission to look at it and really get to the heart of the problem. It is a good step, but given what we are facing and what is coming—I will hopefully be able to tell you about some of the things we are seeing—we really need to up our game because we have a major tsunami of fraud coming our way.

**Q201 Chair:** Can you expand a little bit? You say there are just seven actions in the plan that relate to fraud and that is not enough. Can you give us a flavour of the kinds of things that should be in there but are not in terms of actions?

**David Clarke:** It would probably be better to hand over to Helena from RUSI, who has the tracker and could perhaps give a clear indication of what is in there and other things that are coming. Certainly, one area I would pick up on before perhaps handing over to Helena is one of the actions that we have been told is complete and I would still question whether it is. This is about additional victim care for victims of fraud.

Fraud is a massive problem. There are lots and lots of losses. Some 40% of all crime recorded, which is only the tip of the iceberg, is fraud; 80% of that is online economic crime with a cyber-enabled part to it, so it is a massive problem. To have it as such a low priority and not delivering is a concern, but Helena would probably be able to give a better idea from the tracker.

**Helena Wood:** Thanks, Dave, for teeing me up. Just to give you a feel of our focus, we focus across the spectrum of economic crimes in our economic crime plan programme. We cover anti-money laundering in its entirety as well as fraud, so we look at this across the spectrum.

If we look at it across that broad economic crime waterfront, I would give the economic crime plan and its progress to date a pretty mixed scorecard. We have had some real areas of delivery that we can give credit for. I would particularly point to the redesign of the SARs IT system, which is long overdue but is happening. We have had some really useful steps forward in digital ID and its role in tackling, again, fraud.



Q202 **Chair:** We have already taken some evidence on SARs. There are a huge amount of these referrals via SARs that the banks make. Is the system capable of intelligently handling that volume of information?

**Helena Wood:** Absolutely not, but it is not about SARs alone. We need nothing short of a revolution in how we look at financial crime data. As others who have given evidence to this Committee have pointed out, there is no shortage of data in this space, whether it is from SARs, whether it is the fraud database or whether it is the data held by the private or the public sector, but there are silos in that data. We are seemingly unable to apply some of these really great new technologies, like AI and machine learning, to that data and break down those silos, which only really benefit the criminals.

That is what I would like to see in the future, and it is a real failing point on behalf of the whole economic crime system. We need to get beyond data silos and have a data-led approach to tackling this. There is no shortage of data.

Touching briefly on areas of progress, we have had some good progress, but a keen-eyed observer looking at RUSI's economic crime plan tracker might observe that the biggest areas of progress are in the arguably easier, and I would say cheaper, areas of policy transformation. We are really lagging behind, as Dave points out, on the operational response. We have not seen any huge seismic or systemic shift in how we approach this through an enforcement response. Policy is useful. It is absolutely necessary, but if we do not do anything with the policy, and if we do not do anything with the law, it is absolutely pointless. That is where I would really pull up the Government on their economic crime plan progress to date.

**Chair:** That is very helpful, Helena. Thank you.

**Duncan Hames:** My impression is that the Government will be glad to have got into extra time on this particular challenge. Sure, they have had lots of good reasons not to have made more progress in the last two years. Since the plan was published, we have had a change of Prime Minister, a general election, Brexit and three national lockdowns, and one of the key Ministers concerned has been undergoing chemotherapy, so one understands why more progress has not been made, but there is clearly a lot still to get over the line.

Anti-money laundering supervision is still a mess. Companies House reform, on which the Government produced, in my view, quite a compelling White Paper, has not moved forward in terms of legislation being brought before Parliament. The register of overseas entities' beneficial ownership, which is for foreign companies that hold property titles in the UK, despite having completed pre-legislative scrutiny and having been warmly supported on both sides of both Houses, still did not make it into the Government's legislative programme. There is a lot more to do here.



## HOUSE OF COMMONS

Q203 **Chair:** Duncan, you mentioned the Minister. Your reference would probably be to James Brokenshire. The ministerial level group that oversees the plan seems to have met only twice. How often do you think it should meet, and does it concern you that it has not met more often than that?

**Duncan Hames:** It is quite a big group by the time you have all the industry stakeholders round the table, so it is unlikely to be the engine room of how progress happens on this plan. One of our concerns about that Economic Crime Strategic Board is that there is not an independent challenge function. You have the Government and the financial sector at the table, but where is the challenge to ensure that the solutions and the priorities are not simply convenient to both parties?

That does not have to be a campaigner by any means. Maybe it is a role for a former Treasury Committee Chair, or someone else who would be familiar with the content and be trusted by all parties on the board to engage with it appropriately. I am sure civil society would welcome the opportunity to engage with someone in that kind of capacity and, through them, to provide our own input on how it is going and what the emerging priorities need to be.

**Chair:** Richard, did you want to add anything? There is no need if you do not feel the need, but is there anything you wanted to add on any of the discussion so far?

**Richard Piggin:** The success of the economic crime plan can be judged on the outcomes it is delivering. Is it reducing the harm and the impact on individuals? One of those measures is the level of fraud. As David talked about, the level of fraud, which is the most common economic crime faced by consumers, and the losses incurred from fraud are not going down. In fact, in recent years we have seen a significant increase in the amount of online fraud and the number of authorised push payment scams, which are issues we might come on to later. In neither of those areas has the Government or regulatory response been swift enough or strong enough, in our opinion.

Q204 **Felicity Buchan:** Let me start with a broad question. How do we compare with other countries in our approach to economic crime, and are there any lessons to be learned? Focus in particular on countries with a large financial centre, such as New York for instance.

**Helena Wood:** That is an important point about the UK being a large financial centre, and the Government in their global Britain agenda stand behind that as a triumph, but with great size comes great responsibility. With the great size of our financial services sector, and I would add to that our professional services sector, comes a lot of risk and a lot of threat, and we have to respond to that accordingly.

The main thing we can particularly learn from the States is that it accepts the responsibility of having a large financial centre and responds to the risk accordingly. Nobody really fears the FCA globally, but they fear the



## HOUSE OF COMMONS

regulators in the States because they are taking a much more robust approach. They are genuinely feared. They are the engines of cultural change in financial institutions globally.

We are not stepping up to the threat. If we really want to maintain our position as a global financial centre, we have to take the responsibility that comes with that, and that needs this much more robust response we see in the States. Accordingly, they resource their response properly. If there is one learning the Government can take from over the pond, it is certainly that.

**David Clarke:** I would echo some of what Helena says, but I would caveat my answer with a preface that I am completely behind the United Kingdom. My life has been serving to protect this country. Indeed, that is what I have been doing for 12 years, as a volunteer with the Fraud Advisory Panel. I am not trying to do down this country, but we must take global leadership in this area.

We are facing a major tsunami of fraud, which we have talked about on the Fraud Advisory Panel. I spoke on the BBC in 2017 in response to Her Majesty's Inspectorate of Constabulary's talk of the fraud epidemic, and I said it is a fraud pandemic. What we have created, which is a collective issue, is a haven for fraudsters and money launderers, allowing them to abuse bank accounts, technology, particularly with big tech and the internet, and company formation. which has gone dreadful. It is a haven for criminals and we have to show leadership.

I agree that we have had some fantastic positives. Our partnerships and networks with sectors are like nowhere else on Earth. I know this from my own panel and from working with the people who are witnesses today. It is terrific. During the pandemic, the Cabinet Office, the police and banks have come together to share information, but there is a real problem that people see Britain as having a loud bark but no bite. Look at prosecutions and unexplained wealth orders. This sends a very clear message to criminals that this is not good. People are losing faith. Victims are losing faith.

I would challenge what you said there, Helena. People do fear the feds. If you go around, they do some great work. They have brilliant detectives. I was in Washington DC with the FBI in 2006 asking about fraud, and subprime fraud was hitting here as well. We knew it was coming, with derivatives and the subprime mortgage fraud crisis that caused the 2008 crash. That was the problem. We have not defined the problem properly.

Do we prosecute? There is somewhere we can learn from. Out of the 47 professionals, mainly bankers and insiders, who were prosecuted after 2008 from all that mis-selling, 25 were in Iceland. One was in the United States. How many went to jail for crimes related to that mortgage fraud scandal in the United Kingdom? A big zero.

**Felicity Buchan:** I am sorry to interrupt. In the interest of time, I want



to bring in other witnesses. Please do make the point.

**David Clarke:** I am sorry. My very last point is that we are losing some of our best fraud detectives. We have had some of the best fraud fighters in the UK. We are losing them. The Police Federation and City of London two weeks ago published a letter raising concern with the police authority that we are losing our best people. This is not the time to be going into a battle when we are equipped like that.

Q205 **Felicity Buchan:** Duncan, can I bring you in on the international comparison? Perhaps you can talk specifically as to how we are doing on anti-money laundering and terrorism financing.

**Duncan Hames:** The response has to be commensurate with the scale of the problem. Treasury officials and Ministers will be proud to tell you that the UK's evaluation by the Financial Action Task Force is world leading. It largely measures whether the policy is right, and many of their criticisms are about how we are not deploying the solutions that we have available at a scale necessary to have the right effect. That echoes the observations Helena was making about progress with the plan.

To give you a flavour of that, the SEC and the Department of Justice in the US have an impressive stream of financial investigations activity, which they report very publicly, and what our own institutions are able to report just does not measure up to that. You might say, "That is America," but, given the significance of London globally as a financial centre and the country's ambitions, that is certainly defeatist and that is not good enough.

At the end of the day, UK companies are a global problem. UK companies were connected with transactions relating to the ammonium nitrate explosion in Beirut. UK shell companies were connected with sanctions-busting arms deals in Sudan. UK companies were involved again in the Moldovan bank robbery that took an eighth of the country's GDP in an industrial-scale fraud, so this is not even just about what happens here. There are victims right around the world, and the imposition of a rules-based system on all sorts of important security considerations right around the world is undermined because of the ability to use UK companies to get around important rules that are there to protect all of us.

Q206 **Felicity Buchan:** You have already alluded to real estate in the UK. I notice that we have not actioned actions 43 and 44, which are to enhance information about overseas beneficial ownership of UK property. How big an issue do you think this is?

**Duncan Hames:** This is a big issue. Our research has identified about £5 billion worth of suspicious wealth that is stashed away in UK real estate. There are currently more than 95,000 properties in England and Wales owned by overseas companies. Of those, 85,000 are owned by companies registered in countries where the names of company owners



are not published. This makes it very difficult to do proper due diligence and to protect against our property sector being used as a safe haven for the proceeds of crime and corruption. The measure that you described was the Government's flagship policy to respond to this, and it has cross-party support, yet for some reason in Queen's Speech after Queen's Speech it is not making it into the legislative programme.

**Q207 Felicity Buchan:** Do you think that enhanced information of itself is sufficient to tackle the problem?

**Duncan Hames:** It is probably not enough on its own. It is quite a powerful deterrent if people can see what you are doing and that has reputational consequences for you. It increases the jeopardy and the risk that you are going to be in trouble with the law and, indeed, probably points to a greater probability of success for law enforcement. It is quite telling that in the Baker et al case concerning Kazakh nationals, which the National Crime Agency lost, part of the problem was about the difficulties in identifying the actual beneficial owner of the companies that were being used, those being foreign companies. Yes, transparency would make a big difference. It needs to be backed up by proper resourcing for enforcement and action by the police.

**Q208 Felicity Buchan:** Are there any other sectors that we should be concerned about? For instance, I have heard the art market could be being used to launder money.

**Duncan Hames:** The art market and high-value dealers are regulated for AML purposes and supervised by Her Majesty's Revenue & Customs. We have been quite critical of the effectiveness of anti-money laundering supervision in that respect, but the property market has a potential scale that is quite hard to rival. If you really wanted to focus on where you could make the biggest difference quickly, we would certainly say that, but there are lots of issues with anti-money laundering supervision, which remains a highly fragmented system. The Government's own oversight body, the Office for Professional Body Anti-Money Laundering Supervision—OPBAS—has presented some pretty critical findings about the capabilities of professional body anti-money laundering supervisors.

**Helena Wood:** Just to build on what Duncan said about the scale of kleptocratic wealth finding itself in the UK and looking at the international components of the economic crime plan, there is absolutely no doubt in my mind that the cuts to the UK aid budget are going to have an impact on the UK's ability to deliver that part of the plan. For example, we have already seen the planned growth of the international corruption unit at the NCA put on ice because of cuts to the aid budget.

There is lots of international work we do to upskill our partners overseas to help themselves at source. However, I would say the thing we could most do for overseas partners is actually root out, confiscate and return the wealth that sits not far from where many of us are sitting today. That is where the UK can really be seen to be falling down. Transparency or



not, there are a lot of very easy pickings here, as we are starting to see from some of the NCA's account freezing order cases, but simply by the fact of a lack of resource in the system they are not being picked up and returned to their rightful owners.

**Q209 Felicity Buchan:** Let me move on to the economic crime levy. I know, Helena, you have written on this. How do you think we should fund the increased policing that is required?

**Helena Wood:** If I could make a general point to open, we have perhaps been over-reliant on the private sector to fund what is a public good. We have been overly reliant on them to fund SARs transformation. We are now looking at them to fund the response via the economic crime levy. It is definitely not the case that I am against the economic crime levy, which does well to raise some funds from sectors that have been part of the problem. The problems I have with the levy are how it is going to work and whether it will be matched by a commensurate level of funding from the public purse, which I believe it should be.

On that first point, we are a year in from the consultation on the economic crime levy. We are yet to see how it is going to work. It will be a very difficult funding formula to levy from a sole-trader bookkeeper right up to the global banks. How are we going to make that work fairly in practice? That is the question I would ask, and I look forward to seeing the Government's response on that.

Secondly, it is not enough to look purely to the private sector to fund this. While £100 million sounds a lot, it is not in terms of the scale of the problem that we have all pointed to this morning. We are going to have one of the most heavily contested spending reviews that we have ever seen and one that I doubt will be noted for its generosity, but it would be a real signal of intent from the Government if they gave a somewhat decent settlement to funding of fraud policing in particular, but economic crime across the board, and a better funding of the National Economic Crime Centre, setting out what role it can play in transforming the policing response for the future.

**Q210 Felicity Buchan:** Helena, you have suggested in the past that we should look to increase the fees that Companies House charges. Is that your view?

**Helena Wood:** Absolutely, yes. By international standards, the fees we charge are jokingly low. We currently charge £12 and by way of comparison, if you look at our near neighbours, in France it is around £50. In Germany it is around £100. Our Commonwealth partners, such as Australia, charge about £200. The argument has gone that if we raise the fee it reduces our competitiveness. That is a joke. It really does not; £12 is a very low bar of entry into the UK's corporate system. What will we do with that money? It is desperately needed to fund the huge transformation in Companies House in order to make it a beating heart of intelligence on abuse of the corporate registry.



## HOUSE OF COMMONS

From the evidence they gave to this Committee in the last session, we can clearly see they want to play that role. If you look at their five-year plan, they are absolutely setting out that they want to play this role in the AML system. However, first, they are not resourced to do so sustainably over the long term. Raising the fee could help to do that. Secondly, where is the legislation they need to help them have the powers to do their job properly in the way that they seem willing to do?

**Duncan Hames:** At the end of the day, for those working on enforcement action, forensic financial investigators, it does not matter where the money has come from, as long as they have the resources, the teams and the confidence to be able to take on difficult cases.

We were supportive of the financial crime levy. I am not surprised that most of the respondents to the consultation were against it, because most of them were people who were going to be asked to pay for it, and no one likes paying essentially a new tax, but it needs to be paid for somehow.

I would just point out that, as they have learned in the United States, and perhaps as we are beginning to find here in the UK, good economic crime law enforcement generates substantial penalties, which are currently going into the Exchequer. Since 2017 deferred prosecution agreements have generated £1.4 billion of penalties, which are going to the Exchequer. You can add a few hundred million in Financial Conduct Authority penalties for anti-money laundering in that same period. It is not obvious to me why Government would want to starve those teams of the resources they need to do their work.

We know they are up against people who are prepared to spend serious money defending themselves as well. You only have to see the legal costs that were awarded in Baker et al. That is a pretty strong deterrent for the National Crime Agency to take cases all the way to court. It is perhaps one of the reasons why we have seen its willingness to enter into settlements recently rather than see these things through to the bitter end in the courts. There are real consequences for a lack of funding in this area, but when it is successful it is generating huge receipts that are currently going into the Exchequer.

Q211 **Felicity Buchan:** Where do you think the Government currently stand on the economic crime levy? The consultation finished back in October 2020. Do you think it is completely on the shelf or do you think the Government's intention is to proceed?

**Duncan Hames:** If it was, they would have done. They have clearly got cold feet somewhere, haven't they?

**Helena Wood:** I believe it comes down to the complexity of working out this funding formula. From what I can hear, it is definitely going to go ahead, but how do you square that very difficult circle of making it fit for a global bank as well as a very small local accounting firm in a way that is



## HOUSE OF COMMONS

fair, is proportionate and does not disadvantage small businesses? To me, that is where the problem lies. It is a very difficult levy to work out a formula for.

**David Clarke:** Just to reiterate and endorse what Duncan and Helena have said, we were opposed to it. We see it as a stealth tax on business. Whether it goes ahead or has been parked, it looks vague and our concern is that it does not seem to be costed. A worry for us with the fraud side is that the title “funding for fraud” looked like an add-on at the end, and I would reiterate what you said earlier. Are there other ways? We have huge amounts taken from criminals. Could that go in to fund it?

It was 2012 when the Fraud Advisory Panel launched our first report into the abuse of company incorporation calling for an increase. The other solution we put forward and we endorsed is to use technology. Helena is right. There have been advances in AI. With the frauds we have talked about where fraudsters, corrupt people and the mafia use companies on a grand scale, it is like searching for Cleopatra’s Needle in a bale of hay. It is so easy, but you cannot do that if you are on your own and you have no tools and technology. We could switch that technology on and we could increase fees. I do not think honest businesses would mind a hoot. I would not with my company. It is far too cheap.

Q212 **Felicity Buchan:** I have one final quick question to Helena. You said that Companies House fees need to go up. What do you think they should go up to? If £12 is way too low, what is the right price?

**Helena Wood:** Even shifting it up to about £20, by our analysis, would raise about £5 million a year at the level of incorporations we are seeing so far, which is not a huge amount, but it could fund quite a transformation in terms of analysts, buying in the technology needed to mine that data and sustainable resourcing. At a minimum I would say £20 and that still remains extremely low by international standards.

Q213 **Dame Angela Eagle:** It is extremely disturbing evidence being given so far. David Clarke, you were just talking about the mafia using companies, and I clocked the other day that the big mafia trial in Italy at the moment involving the ‘Ndrangheta seems to be producing quite a lot of information about how they launder their money through Britain. Can you make some observations on what this tsunami you were talking about might actually consist of?

**David Clarke:** If I perhaps look at the domestic and then the international, the domestic tsunami is that billions of pounds of taxpayers’ money has gone out and a lot of it, as the National Audit Office said, has gone to criminals. We have had people taking bags of cash out of the UK. It will not be recoverable.

Q214 **Dame Angela Eagle:** Are you talking about the coronavirus support there?



## HOUSE OF COMMONS

**David Clarke:** Yes. We have fed information into the National Audit Office. I have worked internationally, when I was in the City of London police, with the United Nations and more recently in the Balkans. The way that the Italian mafia and others work is that, like all mafia, they see a weakness in democratic governance and they then infiltrate using all possible means. The best way to launder money is through having a good company with a good name that will never show up on any of these systems we have just talked about. It is the nightmare scenario for law enforcement and fraud fighters that you just cannot see them because it looks legitimate.

What the Italian mafia are masters of, as we know, is infiltrating networks, and Duncan will have talked about that. As for what they are using at the moment, we know that last year they moved into looking at weak companies, good, solid businesses, like we have in the UK, that were in desperate need of help. They could not get help, so they got in and gave their own support. This is how they operate, and it is so difficult to detect.

I have seen intelligence shared through our Covid-19 fraud watch where they are putting money into lots and lots of new companies and mules. People are put in as directors who are clean, do not have any fraud history and are very difficult to detect, and they are claiming everything. They do not just look at robbing banks, individuals and the state. They will go for anything. The mafia in Italy love the European Union funding and green energy. They will be looking at green energy here. What do you need? You need a clean identity, directors to do this for you, bank accounts and a company. We provide all those with such a silver service and we do not even ask for a tip. That is why I am so concerned. My desperate plea is that we have to stop talking about this and get action.

Q215 **Dame Angela Eagle:** Basically, you are saying that, if I could put it this way, the eye of Mordor has alighted on the UK with its systems and the problems with it, and if we do not do something very effective, very soon, we are going to be in deep trouble. Is that a fair summary?

**David Clarke:** With everything we have published and the cases that Duncan has described, and if I add to that three cases where members of the public have approached me in a personal capacity about organised crime, which have been reported, I hasten to add, although I am not entirely happy with how it has been received, we have an extremely dangerous time ahead of us. We must assemble now, stop talking about this and get measures in place, because we have been talking for years. With Companies House, 2012 is too long ago.

Q216 **Dame Angela Eagle:** It seems there is no actual action, just lots and lots of paddling in the water, but no output.

**David Clarke:** That is it.

Q217 **Dame Angela Eagle:** Why do you think that is? Is it just because it is



## HOUSE OF COMMONS

too big a problem for people to face or they think it is too dangerous? Do you think the Government actively do not want to make a difference to this? Is it Russian mafia money?

**David Clarke:** The Government have heard from people like Misha Glenny, Oliver Bullough and Duncan. You have hosted events with Ministers. You have heard how they operate. The *McMafia* book by Misha Glenny is not a fiction; it is reality. That is how they operate. I am an ex-policeman, my dad was a policeman and my grandparents were coalminers in Yorkshire. I am not some kind of rebel here, but they are trying to undermine the last institutions we have. If the crooked people and mafia can weaken Companies House, Government and, most of all, the police service and the office of constable that can stand up against these, and if we lose that, we will be in the same battle that the Guardia di Finanza is in in Italy, where these people are so powerful and have so much money we have to put them in cages.

Q218 **Dame Angela Eagle:** How close to that are we?

**David Clarke:** From conversations I have had with some pretty nasty people and connected people, they like Britain because it is safe.

Q219 **Dame Angela Eagle:** Duncan, what do you think? Our response to money laundering is very fragmented at the moment and we do not seem to be able to do anything to stop this gradual takeover of very powerful dark forces.

**Duncan Hames:** There is a lot of talk about the policy. It is difficult and it is interesting, but we cannot really afford to spend a lot of time on that. We need, as you say, to take action. Why is there not more action and more commitment to resources? I suppose everything is competing with everything else. One of the problems we have when we are looking at money laundering and the proceeds of corruption is that the victims are around the world. On push payment fraud, the victims are on every street of this country, but for grand corruption the victims do not have votes in the United Kingdom and, unfortunately, their voice goes unheard. It is trashing the reputation of Britain and the City of London around the world.

Q220 **Dame Angela Eagle:** We are now known as the Russian laundromat, aren't we?

**Duncan Hames:** Yes, you are quite correctly citing the Russia report there. You read the things that the new Biden Administration have said about their concerns about money laundering through the United Kingdom and London in particular. Even our closest allies worry that this is not properly being addressed, and then you get people tasked with supervising the private sector to mount the defences against money laundering. It was reported in the OPBAS report in 2018, which is the part of the Financial Conduct Authority that oversees the professional bodies that are supposed to be supervising their members—



Q221 **Dame Angela Eagle:** There are 22 of those, aren't there?

**Duncan Hames:** The number changes, but it is around that. There are a lot. They found that 92% of the accountancy professional body supervisors expressed concerns about taking robust action. They said that the reason they gave was that this would damage their ability to attract or retain members, so this speaks to a conflict of interest right at the frontline of the regulations.

Q222 **Dame Angela Eagle:** Let us just get this right. They are professional body supervisors, but they are also industry trade bodies.

**Duncan Hames:** That is right.

**Dame Angela Eagle:** We have to split that.

**Duncan Hames:** We feel that one of the problems here with the supervision system is that there is a conflict of interest by some of these professional body supervisors. They do not want to take the kind of action that is necessary because they know it would have consequences for them as an institute or a members' body.

Q223 **Dame Angela Eagle:** Enforcement is split between the National Crime Agency, the Serious Fraud Office, the Crown Prosecution Service and the Home Office. Nobody seems to have the willingness or the capacity to take on some of these difficult issues and difficult areas.

**Duncan Hames:** There are definitely capacity issues in policing, but in terms of willingness there is a problem in supervision that the small team in OPBAS has been trying to crack. It seems that the way it is designed makes this an inevitable problem, which is why we have been calling for consolidation of anti-money laundering supervision, as it is far too fragmented and conflicted.

Q224 **Dame Angela Eagle:** David Clarke, you are an ex-police officer. How would you sum up the state of enforcement in the country at the moment? Even from the consumer frauds that we are also talking about, as well as the serious crime and money laundering frauds that I have been asking about, there seems to be almost no effective capacity left in the UK to enforce the laws on fraud. It seems almost like you can defraud anyone with virtually no consequences at the moment.

**David Clarke:** I was head of the national lead force. I set up for the Attorney-General and Treasury the lead force and the National Fraud Intelligence Bureau Action Fraud service that emanated from the fraud review. We got a modest amount to recruit some extra officers.

Q225 **Dame Angela Eagle:** Action Fraud is just a phone number now, isn't it?

**David Clarke:** Yes, it is a phone number.

Q226 **Dame Angela Eagle:** It is just a phone number. There is no enforcement at all. It is a phone number.



**David Clarke:** You can phone and you can do online. It is the only one of its kind in the world. It is great to capture data. We are one of the few in the world that achieve that and did it. It is absolutely super, but people are losing trust, and not just the victims, as Duncan says, who do not have a voice. The chance of getting investigated is miniscule. The chance of getting a prosecution is miniscule.

If I could answer your point, Dame Angela, the officers I recruited were the finest fraud investigators in the world by comparison with anywhere else. They are leaving. They are retiring. Some are leaving mid-service. They are going into the banks. One has become a train driver, for goodness' sake.

Q227 **Dame Angela Eagle:** You are more likely to get somewhere in a train than enforcing fraud in the UK. Is that right?

**David Clarke:** When you put a young officer or an experienced officer in that box at the Old Bailey or Southwark Crown Court against an organised crime group that has done a multimillion pound fraud, or multibillion in some cases, that detective constable and sergeant is up against the best in the world. Then we talk about mafia and other things.

This is why we have to protect the office of constable and the independence. They are accountable to the people. They are loyal to the Crown, as I am, but if we send them in with pitchforks to fight these machine guns, we are going to be in trouble. It breaks my heart to see them leaving. It is partly why I have mentored some officers. Does it help our society if our best detectives are leaving the SFO, the police, the NCA or the regulator, and going to work in the private sector or drive a train, not that there is anything wrong with that?

Q228 **Dame Angela Eagle:** What do we need to do about it, in a couple of sentences? I am going to ask all of you.

**David Clarke:** We really have to have a deep thought about what the culture is in British society that we think it is all right to steal. We have to go back to that and then look at what the real threat is to our society. It is multiple, but we have not defined it, which is why we keep having these conversations. The City of London and all of us have a role to play in this. It is not just the financial system. If we have another derivatives bubble with criminals using that, they could move big money with greenwashing and so on.

We really need to have a proper commission, which is what we have called for, and a Minister who takes this forward and champions it in the country. Out across the country everybody must realise we are taking this seriously; we must not keep batting them off. Then we will win trust, because officers are not leaving the service because of money. They are not. They are leaving because they feel they cannot help.

Q229 **Dame Angela Eagle:** Helena, you have said that kleptocratic wealth is making its way to the UK at scale. What do you think we should do to up



## HOUSE OF COMMONS

enforcement and create a system that will make them think twice and hopefully make them go somewhere else?

**Helena Wood:** Sadly, there is no one thing. Given your request to be brief, I would say the one thing that is really lacking in the system at the moment is political will. It should not be forgotten that the economic crime plan was launched in the dying days of Theresa May's Government and it has never been an issue in which I have seen the current Government take a strong interest or claim a stake. We could do with a lot more will in the system. That would do something to give the officers Dave has talked about some sort of pride in their work.

We really need to resource it, and it goes back to that revolution in data analytics that we have talked about. I am not concerned about there being a vast number of agencies taking on this. There is a real argument in favour of specialisation, and I certainly would not be in favour of the SFO merging with the NCA, for example, but those data silos are really working against us, so we really need to build some proper analytics hub within the system. Whether that is in the National Economic Crime Centre or not, we need somewhere that sees what is going on, analyses that data and does something with it.

**Duncan Hames:** If you want the private sector to be your first line of defence, it has to have the tools and information to do that. Transparency around company ownership information is one of those tools.

Q230 **Dame Angela Eagle:** So the companies do not actually consist of part of the enemy, since they have been infiltrated.

**Duncan Hames:** Yes, so they can do decent due diligence and know exactly who they are doing business with. That information needs to be good-quality, accurate information. We do not need new solutions here. We need to get on with implementing the things that have already been decided upon as the things we need to do. Companies House is itching to get on with the reform proposals now. They recognise the failings that they have been criticised for in the past. They are itching to get on with changing, but they are waiting for the legislation that has already been—

Q231 **Dame Angela Eagle:** It seems to me that political will is well lacking. Richard, I know you are going to talk about consumer stuff. I do not know whether you want to make an observation at this stage.

**Richard Piggin:** I am happy to come in later.

Q232 **Siobhain McDonagh:** My questions have some overlap with some of Angela's, but I want to look at what changes in the law are needed to better combat economic crime. The Government have produced a draft Registration of Overseas Entities Bill and it cleared pre-legislative scrutiny in 2019. However, it has not yet been introduced and was not in the Queen's Speech on 12 May. Why do you think this is?



**David Clarke:** I know Duncan will be able to give a very clear and detailed answer on this, because we have spoken about it many times. I go back to that thing. Why do we not want transparency in the UK? Is there something we do not want our electorate and voters to see? We would love to see, on our wish list, a failure to prevent offence. This would be great and really helpful, but we have so many great pieces of legislation already. We will have others.

On the whole thing about transparency, I wrote a letter, which Duncan and others signed, that I sent to Mr Sunak in June last year saying, "From counter-fraud, please publish data of the companies that received bounce back loans, so that we can data match." You could do it on a spreadsheet. I could have done it. I said, "It just does not stack up and this is how they operate." Why do we not want to see the picture? We wrote again to Ministers in August saying, "We found another thing from our Covid-19 fraud watch group. All our partners share information from the dark web. We found another issue here, which is that taxpayers' money is going out to bank A, then going to bank B to pay the person for the grant for PPE and so on, and that account does not have any money in it. Please urgently get the banks to set up a central data repository for that," and it is not there.

Q233 **Siobhain McDonagh:** Can I just say, David, that you are an absolutely brilliant witness? Your enthusiasm and your passion are absolutely obvious to everyone, and I am just sorry that more members of our Committee have not had the opportunity to meet you today because we have changed the day of the Committee, but I just need to rein you in a little bit. Duncan, perhaps you would like to come in with why you think the legislation was not in the Queen's Speech.

**Duncan Hames:** I do not know. You need to ask a Minister this when you get them in front of your Committee. Surely someone somewhere is blocking it. I know that Members of Parliament have had an awful lot of legislation to do, but some of the legislation you have considered over the last three years does not strike me as incredibly pressing. Some of it has been very niche. I do not believe there has not been room for this legislation. Someone clearly does not want it to happen, and it would be very helpful if you were to find out who.

Q234 **Siobhain McDonagh:** Helena, what is your view? Why have the Government been dragging their feet on this and other economic crime legislation?

**Helena Wood:** It goes back to my previous point on political will. I do not think they understand the reputational risk this presents to the UK. It has certainly been incredibly helpful that the Biden Administration have put a huge focus on anti-kleptocracy and illicit finance in general. We are starting to see that wind blowing over the Atlantic and shifting thinking here. People generally think this is a niche issue. They think of economic crime as a victimless crime. They do not think it is impacting on the institutions in the UK, but we know it is.



This is a national security threat. Let us not mince our words. Whether it is money laundering or fraud, this is undermining, as Dave has pointed to, faith in public institutions; it is undermining faith in the UK corporate registry; it is undermining people's confidence in the Government to manage public resources. We ignore this at our will. It is not necessarily a blocker to this particular bit of legislation. It is a complete lack of understanding of how important this is to the UK's global reputation.

**Q235 Siobhain McDonagh:** David, you can really take off now. What other changes in the law would you like to see to improve enforcement against money laundering and prevention of economic crime more generally?

**David Clarke:** I can be quite succinct on this one. I would like to see a failure to prevent offence that really puts the focus on companies. It is difficult. We have had long discussions about this. It has been discussed at some length. The Law Commission is looking at it. It would also help here with the fraud side, so we would like to see that failure to prevent offence.

The bigger picture is this transparency. We have legislation already there. It is just not producing results and we are not enforcing it. On unexplained wealth and the Bribery Act, we need to see more use of it, but that goes back to the question about resources. I will probably leave over to the others to go into more detail.

**Q236 Siobhain McDonagh:** Unless anybody wants to come in, I would like to go to you, Richard, if that is okay. What changes in the law would be most of benefit to consumers?

**Richard Piggin:** One thing that was in the Queen's Speech was a draft Online Safety Bill. The Government are recognising the growing role that online platforms, social media sites and search engines are playing in enabling fraudsters to reach victims. The Government, promisingly, have said that user-generated fraud would be part of that Online Safety Bill, but they need to go further. They need to extend the scope of that Bill to include online paid-for adverts that fraudsters are using.

The economic crime plan says the Government are considering what regulation and legislation might be needed to tackle this problem. They have an Online Safety Bill. The opportunity is now. They should extend the scope of that Bill to cover the paid-for adverts that fraudsters are using to reach their victims.

**Siobhain McDonagh:** Thank you, Richard. You anticipated my last question about the Online Safety Bill.

**Duncan Hames:** The Government published a White Paper on Companies House reform. It requires legislation to change the duties of Companies House and to give it the powers to take an enforcement role as a partner in enforcement action on economic crime. They are working on the detail there. They are really keen to do this now, but they need the legislation. It has not been forthcoming and, without that, we will



## HOUSE OF COMMONS

continue to see UK companies involved in major global money laundering scandals. We have currently identified nearly 1,000 UK shell companies that have been involved in £137 billion-worth of global corruption and money laundering scandals. That legislation cannot come too soon.

**Siobhain McDonagh:** David, I am going to give you the last word or several.

**David Clarke:** Thank you. That is very kind. We take a very strong view on that and support what Which? has said. It beggars belief why fraud is not in the Online Safety Bill. Really, the question goes down to big tech being used to generate huge profits. A lot of that is from adverts and paid advertising that fraudsters use. That is money laundering. The money they make from it is proceeds of crime. Why are we not addressing this? Why are we not calling them to account? They could put systems on to tackle this.

The thing I would really like to stress about victims of online harm is that they do not report this. They lose millions online. A fake review is what feeds these ads. If you are a little business in Durham, or a sole trader in Yorkshire or down in Devon, and you have your little company, if a fraudster puts a fake one-star advert on, you drop down and the criminals who have five stars go up.

There is technology available to identify that and the big tech companies do not use it. They keep the data, but they do not show you it. They actually take down stuff. There is a company in the US trying to challenge this. Technology could be switched on tomorrow to protect the consumer and we will not do it. Why will we not address them and call them to book? The legislation would change that and they have massive profits to be able to put into this. Just switch it on using the technology that is already there and we would protect millions of consumers online overnight.

**Siobhain McDonagh:** Thank you all ever so much. You have been fabulous witnesses. I have learned so much.

Q237 **Alison Thewliss:** Really to pick up where Siobhain left off on Companies House, I was wondering if I could come to Duncan first and ask you to tell us a bit more of the scale of the problem we face in cleaning up the Companies House register.

**Duncan Hames:** When the register was first created it was world leading and, if you are the first in the world to do something, you have to learn more of the lessons, which other people can then simply follow from your experience. In the time since, we have learned quite a lot about how willing people are to put false information on this register.

Principally, what needs to be done is to introduce systems of verification and identification of directors and those putting information on the register, as a deterrent to providing false information and as a route to



## HOUSE OF COMMONS

pursue those who do. This will require new obligations on those registering companies and new duties at Companies House to enforce that. Enforcement at Companies House has grown, but from a very small level, and it is a really big register at the end of the day, so it needs to be commensurate.

I gave figures for England and Wales on foreign companies owning land titles. You might also be interested to know that there are 3,500 land titles in Scotland owned by overseas companies, most of those in secrecy jurisdictions. You cannot find who owns the company that owns the land title. If you do not use a foreign company, that information is available through the Land Registry. If you use a UK company, that information is available from Companies House. This is a problem that appears in all four parts of the country.

**Q238 Alison Thewliss:** I remember all the discussions around the Registration of Overseas Entities Bill and the evidence around land registers, and the complexity of that.

I was going to ask about not just the deliberately fraudulent information being put into Companies House but the duplication of information as well. My colleague Peter Grant has been looking into Blackmore Bond and has found that one of the directors is registered nine times under different accounts. It seems absolutely ridiculous that you have this duplication that does not need to exist. It is the same person in each case, with the same date of birth. Is this a deficiency in the register? Is it something that can be fixed or do we perhaps need a new register, to start again, given the amount of guff that is in there?

**Duncan Hames:** A unique identifier for directors would help in doing the kind of due diligence that we would want people to be able to use the register for. We are soon going to be in a situation, with the publication of the Elections Bill this week, where you will require more evidence of your ID to vote in a parish council election than you do to set up a network of shell companies at Companies House. We need to address that deficit, because what you are capable of doing, if you want to be involved in money laundering with a network of companies at Companies House, potentially has very great impact indeed, and perhaps more so than my vote in the local elections.

**Q239 Alison Thewliss:** Yes, I would agree with that. Is there more that needs to be done around company formation agents? Is that a missing link at the moment?

**Duncan Hames:** We need to require them to verify the information of the companies that are being set up and properly connect their identity. They use a direct registration using the online facility. You will not always know who the company registration agent is, so bringing some formality to these processes and a proper audit trail would certainly help in clamping down on the more irregular activity.



Not all of these formation agents, I might add, are based in the UK. I know we have been very critical of the role that UK companies are playing in global financial scandals, but someone involved in those kinds of enterprises will pick and choose different jurisdictions that best serve the criminal endeavour they are engaging in. The Baltic states have had huge problems with their banking systems. We have a big problem in the way our companies are abused. We know that our overseas territories offer a degree of what they would call privacy for the time being, which provides a shroud of secrecy.

If you want to distance a criminal from the proceeds of their crime, you can use all of these to create layers of transactions that clean and launder that money, so that it is no longer associated with the original crime, and it becomes very hard to go after these criminals. These shell companies are the modern-day getaway car from major robberies.

**Q240 Alison Thewliss:** Is there any particular reform that you would make at Companies House just now? You said it needs legislation to do certain things. Is there something that could be done right now that would help?

**Duncan Hames:** They need legislation to impose verification requirements. They would tell you that they are not allowed to act outside of the powers that are given to them under statute and that, therefore, there is a change needed to their duties. They may well even feel that they are a bit exposed at the moment in some of the initiatives that they are trying to take in co-operation with law enforcement, because it is going beyond the duties simply of a registrar, which is how Companies House was traditionally seen.

**Helena Wood:** Prior to that legislation coming in—and let us face it, even if it is in the next Queen’s Speech, it is going to be a couple of years down the line before Companies House is properly empowered—we could do more to police some of the gatekeepers in that system, by which I mean trust and company service providers. There are only so many that we can police. We can police only the ones in our jurisdiction, but we know that the problem really lies in the so-called standalone TCSPs that are registered to HMRC. They have certainly shown what they are capable of in the past two years under their re-formed strategy for AML supervision. They have done some great work around money service businesses, for example.

I would really like to see them apply that new model to the trust and company service provider system, which I have publicly called the wild west. It has been so under-regulated and under-supervised that we frequently see these company factories emerging, where you have individuals at certain addresses registered to hundreds of companies. There is a lot there that HMRC could do to use them as the first line of defence in that system.

**Q241 Alison Thewliss:** Helena, my colleague Siobhain was asking about whether there are any reasons for this delay and who benefits from the



## HOUSE OF COMMONS

delays that we have seen, because the problem is pretty evident and has been for quite a while. I just wondered if you had any thoughts on that.

**Helena Wood:** I am really not sure. We had a huge delay in bringing forward even the proposals. It was two years from the consultation to bringing this out, and it was no surprise that they finally launched that consultation on the eve of the FinCEN leaks coming out. If you were a cynical individual, that might drive some of that cynicism, for example. There is no excuse now for dragging our feet. It really would be a signal of intent from the Government about how serious they are about companies reform, were that legislation to land in the Queen's Speech next year, so we wait with bated breath.

**Duncan Hames:** We do not want watering down with this delay of, for example, good-quality information about shareholders that is accurate and not out of date. We are concerned that, with this delay, we are going to see a reduction in the ambition from what was in the Government's White Paper, and that would make the register less useful than it could be.

**David Clarke:** I would echo everything that has been said there. All of us were involved in the Organised Crime and Corruption Reporting Project's investigation into a company called Formations House, which set up thousands and thousands of bogus companies for various questionable purposes. I would encourage the Committee and everybody to watch the undercover interviewing that I saw of that. This is the problem. Then it goes on to the question, "So what do we do when we find it and we have all this?" Nobody has been arrested because of that. There has been no further investigation, the same as laundromat.

Let us not have more red tape. Britain is a fantastic place to do business. It is easy to do business. We want inward investment and exports. I know that with my company. It is a great place to live, work and do business—all of the nation—but we do not want bad people coming here. We have seen a lot of companies that look like they have been set up to get bounce back loans and furlough fraud.

When people in our towns, cities and villages look at this, they are going to ask, "Why did you not give that grant to me?" I do not want inward investment from a corrupt person in that part of the world. I want good investors here. This is a fantastic country and nation to live in. It is beautiful. We really have to ask, "What do we do with this data?" Technology is the answer.

I will just finish by saying what I said at the beginning: when you put technology over this, it is like looking for Cleopatra's Needle in a haystack. It is easy. Let us share that with everybody and be transparent, so that my company can check things as well. Do not hide the data.

Q242 **Alison Thewliss:** On data, it has been suggested to me in the past that



## HOUSE OF COMMONS

the way in which the register operates at the moment helps identify fraudsters and things like that. Do you buy that?

**David Clarke:** I do. I go back to what Duncan said: it was the first. It is a register. It is not there to investigate. That is what investigators do. That is what I do for me and my clients in my company. We use it. It is a fantastic, free resource, and the best in the world. I wish it had analytics on it, like we recommended in 2012. It would be great. Put a tool on it. There are some fantastic tools out there.

The 1.4 million SMEs in the UK that employ half of the population would love to be able to go online and use a quick app. They should not have to employ an ex-chief superintendent like me or a fraud squad detective to do it. We should make it really easy. That technology could be switched on. Maybe we do not ask them to be the investigators. Let the public have equipment and technology. It would work. It is a great system. It has been abused by bad people.

Q243 **Alison Thewliss:** I want to move on now to some questions around push payment fraud and to ask Richard Pigginn whether the CRM code has been effective.

**Richard Pigginn:** The banks and the regulator have had two years to make the voluntary code and self-regulation work. All the evidence shows that it has failed. Some £700,000 a day is being lost to authorised push payment fraud. Less than half is being returned to customers. The PSR now agrees that the voluntary code you refer to has not done enough to reduce the scam losses incurred by victims, and it is now proposing mandatory protections for customers. We strongly support that mandatory approach.

Currently, there are two options on the table. One would be for banks to sign up to a code developed by the industry. It would give payment service providers an opportunity to develop a code. We think this would be a mistake. There is nothing that the banks have done over the last five years, since Which? first raised this issue with the regulator, that demonstrates they are really going to deliver better outcomes for consumers.

What the PSR should do is take forward its other option, which is simply to introduce a requirement on all firms to reimburse victims of APP scams, where they have acted appropriately. That is what the regulator now agrees needs to happen. It should take forward that option. The one remaining obstacle there is that it does not have the powers to do that, as it stands, so the Government need to act swiftly to give the PSR the powers it needs to take effective action quickly. That is what we need now.

As I said, £479 million was lost to APP fraud in 2020. We put this on the regulator's agenda five years ago. The numbers have done nothing but go up in those five years. We still see, every day, people losing money,



## HOUSE OF COMMONS

and banks have a wildly inconsistent approach to how they are implementing the voluntary code. It is a voluntary code and does not apply to every bank. There is an issue there.

Those that have signed up to the code are also interpreting it wildly inconsistently. In terms of outcomes for consumers, depending on who you bank with, it is a bit of a lottery. Some banks are reimbursing more customers and some are reimbursing fewer than 10%, even though the founding principle of the code is that customers who are not at fault should be reimbursed.

**Q244 Alison Thewliss:** That is really interesting. If you are pushing for that requirement on firms, presumably you are also pushing for it to be at the stronger end of what firms are doing just now, rather than the weaker end.

**Richard Piggin:** Yes. The challenge that we have with the voluntary code—and it was developed with industry and consumer groups, including Which?—is that there is a difference of opinion on the steps that consumers should be expected to take to protect themselves. What we know is that some of these frauds are particularly sophisticated. The truth is that anyone can fall victim to them. The bar that some banks are placing on the steps that consumers should take is unrealistically high, and we think it should be lower, because of the nature of the scams and what we know about consumer behaviour.

We have principles here around gross negligence, for example, in other types of payment fraud. The PSR introducing a requirement on firms to simply reimburse victims of APP scams, where they have acted appropriately, would take out some of this indecision and lack of consistency, where banks are, effectively, deciding the fate of the victims. It would remove that uncertainty and bring it more into line with other areas of payment fraud.

**Q245 Alison Thewliss:** Which organisations ought to be within the scope of this? Is that a fair burden for the smaller service providers?

**Richard Piggin:** That is a really good question. All payment service providers should be in scope here. We are talking about basic consumer protection, and we do not think there would be an unreasonable burden on smaller providers. The level of reimbursement would be proportionate to the size of the firm and the transactions that are being taken. It could be developed and delivered in a proportionate way. There might need to be some sort of de minimis threshold, as you see in other areas of financial services, but the principle here is that it should cover all payment service providers.

**Alison Thewliss:** That is useful.

**David Clarke:** I would endorse exactly what Richard said. I had forgotten that it was five years ago that the Fraud Advisory Panel supported the super-complaint that Which? made, and thank goodness



## HOUSE OF COMMONS

you did. I went to meet the team at the PSR and was quite staggered at the view. We support that and it should be out there. The confirmation of payee system was delayed for so long, where you cannot send to somebody who is using a fraudulent bank account. Thank goodness that came in just after the pandemic hit. It will have saved victims hundreds of millions. Everybody went online. I would love to know how much has been saved as a result of this, because there was a lot of talk before: "We do not want this. How much would they lose?" I was asked by the PSR if I knew how much victims had lost. They call me a lot, but I do not get everybody telling me.

**Alison Thewliss:** Yes, it is hard to tell, isn't it?

**David Clarke:** It would be really good. Let us remember, though—and I am in the private sector now—that the banks are a business. They have shareholders. It costs a lot of money to modernise all their ancient tech, and some of it is ancient. Antony Jenkins of 10x, the former head of Barclays, is setting up a new platform that is trying to fix the thing. They have old systems, which is part of the problem. It is not their fault.

The last thing I would say is that, in retail banking, they do not make much money. That is why they complained about having to spend money on this sort of thing. Where they make their money, if you listen to friends like my Wall Street analyst veteran David Hendler, is from derivatives, shadow banking and hedge funds. We did an interview talking about what is happening in the Balkans. That is where they make their big money. Perhaps they could take some of the money they make in those multitrillion dollar transactions and put it into protecting the retail bank side. We have to sharpen this up, and we agree with everything that Which? has said.

Q246 **Alison Thewliss:** That is really interesting. That is a question that we could take back to the banks about how many transactions have been stopped by the measures that have been put in place. That would be interesting.

Some of the issues are around faster payments. A previous Treasury Committee inquiry recommended a delay in faster payments. Could you tell me a bit more about what the advantages and disadvantages of that would be?

**David Clarke:** I am speaking as chair of the Fraud Advisory Panel. Those transactions have to go through and we do not want to be delaying, but let us not mix up a transaction for a £1.2 trillion bond that is moving between banks across the world and what my daughter is doing at uni in selling one of her prints for £20. It is farcical. We asked, "Why not look at that thing of sending a £1 transfer, delaying and holding it?" My company is an international business and we make massive payments. I would rather my finance teams call me, do some checking and do reviews than have them sending anything anywhere. In this pandemic, even medium-



## HOUSE OF COMMONS

sized businesses cannot afford to lose £10,000 or £20,000. Some cannot afford to lose £500. That does not wash with me.

I would mention one of our reports from years ago in 2017, *Business Behaving Badly*. History tells us that a lot of sectors always say, "We cannot do this." Even when we have highlighted mis-selling and risks to people, there are lots of reasons why you cannot do it. If you look through there, there are also the massive fines that were implemented afterwards when it went wrong, and we all know about PPI and other things. I have never had a go at people or industries. I know there are great people, but they are not seeing the harm and the benefit of doing these things early. Richard and I and the panel are not doing this to be awkward. We are doing it to protect everybody in this nation, and our institutions. It is difficult.

**Richard Piggin:** Picking up on a couple of points there, on the delaying of payments, we are not averse to there being a little more friction in the payments journey, but it has to be risk-based. It should not be blanket across all payments. It needs to be proportionate to the risk involved.

David also mentioned confirmation of payee. It is relevant to note that the PSR directed only a small number of firms to introduce it. It is not introduced across the board. Some other banks have voluntarily introduced it, but it is still not introduced across the board, so there is more work that needs to be done.

You are absolutely right in terms of a bit more transparency about some of these measures, and confirmation of payee is a very good one. There are other warning measures that banks have put in place. It would be really good to understand how effective they are and to look for some transparency from firms about how effective the warnings are, including confirmation of payee, and more transparency in general, looking also at other measures and at the reimbursement rates of each of the firms.

That is currently being reported on, but anonymously. As I mentioned earlier, we have some firms that are reimbursing less than 10% and some more than that, but we do not know who they are. As a first step, that is something the PSR could definitely do. It could require that transparency around how firms are dealing with push payment fraud and reimbursing victims.

Q247 **Alison Thewliss:** That is really useful. Lots of microbusinesses might be using personal accounts rather than business accounts. Does that present any problems? If someone on a local Facebook page is offering a service and asking for money to be transferred to them personally, does there need to be more protection around that?

**Richard Piggin:** There is coverage for small businesses, and the amount that is lost is broken down by personal transaction and small business transaction, but, as you point out, lots of small businesses use personal accounts. It is not just a consumer issue here. There are lots of small



businesses that are impacted by this, and certain types of APP scams are particularly targeted at small businesses.

Q248 **Alison Thewliss:** I want to move on very briefly to online fraud and scams, which is something that Which? has campaigned on an awful lot. Do you have anything further that you want to say about the Online Safety Bill and what needs to be in there?

**Richard Piggin:** I will reiterate that what the Government need to do is to swiftly introduce and give online platforms the legal responsibility to identify, remove and prevent fake and fraudulent content appearing on their sites. That should include paid-for adverts. They have a draft Online Safety Bill. They said it would include user-generated fraud. It now needs to be extended to include paid-for advertising.

They have the opportunity to do that, but they need to do it swiftly. It is just a draft Bill at the moment, so it is still going to take a little bit of time, but the opportunity is now. They are talking about other initiatives. DCMS is looking at online advertising in a different initiative. They have an Online Safety Bill. Let us use that. Let us make sure it is comprehensive and covers online fraud, so we do not have a piecemeal approach to this.

**Chair:** Finally, we go to Harriett, please. We seem to have lost her. There is no picture, Harriett, but we can hear you.

Q249 **Harriett Baldwin:** Not only is it a challenge on the technology, but it is a challenge coming in at the end and finding new areas to question you on, but I hope I will use my time to draw out some things that maybe have not come up so far.

It has been noticeable how the banks have made it more challenging for consumers to make payments. They seem to be changing their technology platforms to have more checks than before, and I have noticed that with my own bank. In fact, to David's point about the £1 payment issue, I found that, this year, I had to make a payment, so I sent £1 ahead of schedule, which got through, but they would not let me send the rest. That is exactly what criminals do: they ask you to send the £1 first, so I do not think that is the magic solution, David, unfortunately, but I did manage to make my payment in the end.

Your evidence, Richard, on the effectiveness of the contingent reimbursement model code was interesting, because it struck me that you have very few members. Why is that?

**Richard Piggin:** It is a voluntary code. It is a voluntary and self-regulatory approach.

Q250 **Harriett Baldwin:** Why have people not signed up for it?

**Richard Piggin:** That is a very good question. We have been encouraging others to do that. It comes down to its voluntary nature. Just two days ago, Virgin Money announced that it is now an interim



## HOUSE OF COMMONS

signatory. Since it was formed two years ago, only the Co-operative Bank has signed up, so we have nine plus one interim bank. What is needed—and the PSR does recognise this—is a mandatory approach.

**Q251 Harriett Baldwin:** What objections are you hearing from the big banks? I note they have not signed up to this code.

**Richard Piggin:** The majority of the larger banks have, and the PSR will state that it covers about 85% of those customers. What it does not include is various banks and payment service providers to which you might be sending money but you have no control over. I know who I bank with and I can check that it is a member and has signed up to the code, but I have no control over the bank of the person or the business that I am looking to pay. They might not be signed up and, if they are not, the level of protection is significantly weaker.

**Q252 Harriett Baldwin:** Other than legislating, is there anything that could be done to encourage more people to enter this code?

**Richard Piggin:** I do not think there is. We have tried. We have had two years of a code. The problem is there is a lack of consensus across the industry about what needs to be done.

**Q253 Harriett Baldwin:** What are the objections that you are hearing from the organisations that have not yet signed up?

**Richard Piggin:** They simply do not have to do it, so they do not want to do it. They have no legal responsibility or obligation to reimburse their customers, so they do not need to, and some, therefore, simply will not. It might require some more levels of protection and some more effective warnings that they might need to implement, and some feel that is not a priority for them at the moment. Some of the larger firms that have signed up were already thinking of doing it.

There is a lack of consensus here, and it speaks partly to what is needed in terms of that mandatory approach. You could embed these mandatory protections through the faster payments scheme's rules. The PSR and the Government have said this is what should happen. Theoretically, the banks could decide to do this themselves, but in practice we know that is not going to happen.

**Q254 Harriett Baldwin:** Are there any banks that Which? would recommend you should not deal with at all, because they are so reluctant to engage with this?

**Richard Piggin:** We have made it a criterion for a recommended provider status. We have Which? recommended provider status for current account providers. We have made it a criterion that, at the moment, in order to qualify for that, you have to be a signatory to the CRM code.

**Q255 Harriett Baldwin:** Are there banks that you would name and shame in this forum?



**Richard Piggin:** The banks that are listed as signatories are well known. Those that are not include the likes of Monzo and Tesco Bank. They are probably two of the largest smaller players that are not currently signed up to the code. Virgin Money has just signed up as an interim signatory. The larger ones that you will be more familiar with—the big six—have all signed up.

We have a lack of consensus about how you embed this in faster payments, because that covers a whole range of smaller payment service providers as well. Theoretically, they could do it; you do not need to change the legislation, but in practice we know it is not going to happen. The PSR needs to be given the powers to make those changes itself and, as I said, implement that mandatory requirement through the faster payments scheme rules.

Q256 **Harriett Baldwin:** My constituents find it difficult to understand, if, let's say, they get tricked and make a payment to an account at a major bank, why the trail of evidence does not allow law enforcement to catch the people who have opened that bank account.

**Richard Piggin:** It is a very good point. There are a lot of your constituents and a lot of consumers whose expectations in this space are not matched by reality. Truth be told, it can be a very complex system, because fraudsters are quite sophisticated and will move the money very quickly. Often, what we will see is that the money might move from one account to another, and then, immediately, move from that account to another, and overseas. It becomes very difficult to repatriate those funds.

Q257 **Harriett Baldwin:** Surely it is difficult to open a bank account in this country. They must have had to provide some sort of information, which should be quite a good trail for the police.

**Richard Piggin:** The ability of the banks to prevent the fraud and the harm is exactly the reason why we think they should be taking that additional responsibility for reimbursing customers. If they did have to reimburse customers, as we would expect—all those who have acted appropriately should be reimbursed—that would provide an incentive on them perhaps to monitor a little more closely the types of fraudulent or suspicious activity, and prevent them from happening. Introduce a system that consumers might expect is already there in terms of the checks and balances that banks would have in place. It does not appear as though they are in place, and that is why we think the mandatory requirement on them to reimburse, in those cases where customers have acted appropriately, would provide that incentive on banks to do more.

Q258 **Harriett Baldwin:** That is the one thing that you would change. Can I give each of the other panellists a chance to say what one thing they would ask the banks to do differently?

**David Clarke:** Deploy the same level of technology that we have on the algorithms, such as credit cards. AmEx and Barclaycard are absolutely fantastic. If they see a transaction that does not match, it gets picked up.



## HOUSE OF COMMONS

They will not, because this is your own money. I helped Elizabeth, who sent £1.6 million to fraudsters. Another lady in Kent sent £1 million to fraudsters. This is money that could be invested in the UK. If they are a business, they can protect their own money with a credit card. It is down to the victim to protect themselves. If we could get those systems on, that would be a start. We also need an education programme; we have called for that for years. The public are not calling for this. Which? is doing great work, as are we. The public are not calling for it, because they do not know until they get hit. One in 10 people get defrauded and it is rising. The tsunami will come and people will be calling. Let us start now and do that. Really bring the technology in.

**Harriett Baldwin:** Get better technology in. Helena, would you add anything to that?

**Helena Wood:** Over the past few years, we have seen the power of public-private partnership in the money laundering space, which feels much further ahead in this regard. We have seen the power of getting banks sitting around the table with cops to investigate these things jointly. I feel like fraud is somewhat behind the curve in that regard, so we should have more joint working and more openness and willingness to share. That goes both ways. This is not just on the banks. We have been found napping in the UK public sector, so there has to be a willingness to share. A dare-to-share culture would be a big transformation.

**Harriett Baldwin:** Duncan, is there anything that you would add to those suggestions? This is for the banks.

**Duncan Hames:** On sharing, we have seen, at the Joint Money Laundering Intelligence Taskforce, the value of being able to share what has been learned across the sector. Given what we discussed earlier about the volume of SARs, anything that helps banks to co-operate to produce super-SARs that present much more and co-ordinated intelligence is useful to law enforcement.

The Government have invited them to the top table. They are members of the Economic Crime Strategic Board. The Government have asked them to fund a lot of the exploratory work on improving this regime. They should use their seat at the top table to demand that the Government follow through on their own commitments in the economic crime plan.

Q259 **Harriett Baldwin:** Moving on to the future, it is the case that, over the last 10 years, we have seen fraud get so much worse. During the pandemic, when so much has gone online, we are expecting it to have led to a considerable rise in economic crime. Does anyone disagree with the statement that we are likely to see this trend continue? I did not think so. Given we all agree that this is likely to continue to be an area that gets worse, can you think of any areas where we might get better?

**Richard Piggin:** The key thing, as we covered before, is that the agencies and organisations involved need to have the right



## HOUSE OF COMMONS

responsibilities placed on them for protecting consumers from consumer fraud. The regulators and other agencies need to have the right powers to be able to quickly implement the actions that are needed. There are challenges; of course there are. Fraudsters, in particular, adapt incredibly quickly. You can see how they have adapted to the pandemic and to the changes in how consumers are online more in their lives.

The regulations and legislation in this space have not kept up, and we need both to act quickly enough in order to tackle the harms that we are seeing now, and to empower regulators in particular with the right tools to be able to look at the future trends, so that they have the powers to be able to act in the future, rather than waiting for that to happen and then asking for further powers once it happens. We need to make sure that we are not behind the curve, which is currently where we are.

Q260 **Harriett Baldwin:** So you would put the onus here on just the regulators, rather than the consumer and the private sector.

**Richard Piggin:** It is the Government giving those regulators—the FCA, the PSR, Ofcom, the new regulator around online harms, or the CMA—the right tools and powers to be able to respond to the changing environment.

Q261 **Harriett Baldwin:** David, what would you see as being the biggest opportunity to reduce economic crime and its current growth trajectory? What is the biggest blocker at the moment—resources, the regulators, the private sector or a skills shortage?

**David Clarke:** It is all of the above, but the biggest one is that we need to educate people with a big programme. We are letting people speed down a motorway in a Maserati without a seatbelt, and probably without a licence. That is what the internet is. It will be a massive issue.

The bigger thing is that we have to recognise trends. The Fraud Advisory Panel looks at solutions and the problems of the past, with things like, as I said, *Business Behaving Badly*. If we do not learn from the past, we will not make a difference. We now have to try to look at what is coming next. We have suggested things like a centralised data repository to match data, especially if we have another wave of money that needs to go out from the Government. Get that in now. We suggested it in August last year. Publish the data, so that the credit reference and fraud prevention groups can start matching. We do not have to rely on Government and law enforcement to do it. Companies House is the same.

Also, let us be brave. A lot of people I am talking to mention cryptocurrency. Why are so many people wanting to go into cryptocurrency? They are saying that they do not trust our fiat currencies, our sovereign currencies. The Chinese have now introduced the digital yuan, which is partly there to stop fraud and money laundering, because you can track the money as it goes around. We were



## HOUSE OF COMMONS

the pioneers of technology, but we have not switched it on. Now people are calling for cryptocurrency like Scotcoin, Fedcoin and Bitcoin.

I do not know if we are behind the curve, but crypto is telling us something. People are losing trust, not just in law enforcement but in the system. We have to get that trust back. This is a once-in-a-century opportunity to do that, because everybody is going to have a big wake-up call soon and say, "Yes, you are right. Let's fix it, and let's fix it well," and we can. We have the community wanting to do it now. That, I hope, is how we get around this going forward.

Q262 **Harriett Baldwin:** I do not think cryptocurrencies are going to be the solution to any of these issues.

**David Clarke:** Blockchain does have some great stuff, and that is what the Chinese are talking about.

Q263 **Harriett Baldwin:** Fair enough, yes. Helena, what would you recommend Government do to get ahead of this growing curve of economic crime?

**Helena Wood:** They would do well to recognise that the economic crime problem will not be solved by July 2022, when the current plan comes to an end. I would like to see them commit pretty early to a second economic crime plan, which will kick off soon. They will need to start thinking about that pretty soon if they are going to do it.

Within that, I would like to see, as a core, an intel-led enforcement focus, rather than this piecemeal, round-the-edges tinkering at the corners of the system. The systemic change has not happened under the current plan, and partly was never going to, so we really need to look forward at an action-oriented plan for the future.

Within that, I would really like to see someone giving some proper consideration to two major areas. One is anti-money laundering supervision. Talking of tinkering around the edges, OPBAS has done a really good job of setting out expectations, but it has not been able to deal with the fundamental problem with our AML supervision system, which is that it is fragmented and broken, and we are outsourcing what is a public good to private sector actors that are under-resourced. They do not have access to the specialist intelligence tools that, for example, Simon York from HMRC was telling you about at the last session. They do not have recourse to proper intelligence, undercover officers and all those sorts of assets that you need to do this properly. We need to consider whether that system creates a credible deterrent in the first place.

Finally, we need a root and branch review of economic crime policing, and not just fraud policing. I mean across the board. That has to be led by some sort of data analytics hub. Where that sits is problematic. The argument might be that it sits underneath the National Economic Crime Centre as the most obvious place, but I would point to the fact that it is not resourced to do that at the moment.



## HOUSE OF COMMONS

To wrap up, I would really like to see a more action-oriented response under a second economic crime plan that is properly thought out and involves engagement with the public and private sectors for the future.

Q264 **Harriett Baldwin:** Have you seen any effect from Brexit in terms of all this work?

**Helena Wood:** It goes without saying that law enforcement co-operation is going to be bumpy, as we lack some of the assets we used to have.

Q265 **Harriett Baldwin:** Which specific assets are we lacking as a result of Brexit?

**Helena Wood:** I do not think the assets have changed necessarily. It is the access to them. In terms of the ease of law enforcement co-operation, we have yet to see the real outcome of that. It remains to be seen. What I would say is that law enforcement officers will always find a way to share intelligence. It remains to be seen what the bumps on the road in the post-Brexit world will be.

**Duncan Hames:** On the point about international co-operation, trusted relationships between law enforcement bodies are really important. It is more than simply an agreement on paper or an exchange. We have, in the UK, the International Anti-Corruption Coordination Centre, with principally Five Eyes countries as members. It would be good to see more of our allies in major economies and G7 countries able to collaborate on these very complex international cases with the IACCC.

We also agree that it is important to understand emerging threats. We are currently carrying out research on electronic money institutions. The ability they give to set up payment accounts in minutes and to hold and move various currencies, including crypto, around the world using opaque shell companies does mean that these institutions warrant further scrutiny, and we will be very happy to share with the Committee our research on that over the summer.

The Wirecard scandal shows how these institutions can be abused, and we have seen people who have been working in high-risk sectors moving into these institutions. Several UK electronic money institutions have already been named in investigations into international financial crime. It is certainly an emerging area of concern as far as money laundering is concerned.

Q266 **Harriett Baldwin:** Are you able to name those institutions?

**Duncan Hames:** I can provide that in a note for the Committee.

**Chair:** That brings us to the end of this session, and what a very interesting session it has been. Can I thank all of our witnesses, all of whom have been absolutely excellent in exploring the issues that we have explored with you? It was a slightly depressing session as well, I have to say, in terms of the sheer extent of fraud and economic crime



## HOUSE OF COMMONS

that there is already, and what David has described as a likely tsunami of further fraud-related issues coming down the line.

We discussed a very large number of strands that feed into how to combat that: the plan that we need, which is perhaps going to need to be a bit more focused on fraud in particular; better co-ordination; concerns about the fragmentation of the approach that there has been to date to these issues; the need for us to show global leadership; the need for resources, skills and experience of those at the centre in order to tackle these problems; the need for a revolution in the data analytics that are available to consider these matters; and issues around the approach to UK property registration.

The question of a failure to prevent offence has been raised. There was quite a lot of discussion about the Online Safety Bill, upon which the Committee has already made some recommendations along the lines that the witnesses have been seeking. There were also questions about the powers of the regulators that are there to try to tackle these problems. There was an overarching point about the political will or otherwise that there is to get a grip on these matters.

Just as economic crime and fraud have many strands, so does our inquiry, and there is an awful lot there. Can I thank you in particular for throwing light on such a wide variety of different aspects of this extremely serious problem that we are all attempting to address?