Financial crime: analysis of firms' data

November 2018

Contacting us

If you have any queries about this data, or suggestions for future statistical disclosures on financial crime, please let us know.

Email:
REP-CRIMqueries@fca.org.uk

Subject 'DATA PUBLICATION'.

How to navigate this document onscreen

≡ returns you to the contents list

Contents

1   Introduction

1.1   The Financial Conduct Authority (FCA) is committed to making the UK financial services sector a hostile place for criminals and a safer place for consumers. So we are sharing this first industry-wide view of the financial crime risks the sector is facing.

1.2   We consulted on and, in 2016, launched an annual financial crime data return to provide intelligence on the threats and trends firms are facing. We required over 2,000 firms, including all UK-based banks and building societies, to complete the return. The data they submitted offers – for the first time – a collective industry view of the risks that criminals pose to society and how firms are responding.

1.3   This report provides an analysis of our first year of data and covers issues with often profound social and economic impacts, including terrorist financing, sanctions, money laundering, and fraud.

1.4   For the FCA and firms, these data represents an important step. Historically, it has been difficult for agencies to acquire robust figures on financial crime. Criminals are not in the habit of publicising their successes, and crimes like money laundering – a secret activity that is designed to conceal the truth – are particularly hard to measure.

1.5   The data in this report come from larger firms that are subject to FCA anti-money laundering regulations. It reveals the significant amount of activity being undertaken in the UK to combat financial crime.

1.6   We would like to take this opportunity to thank all businesses who completed our first data return. We trust that the information will be useful to both policy-makers and firms, as well as the many other UK agencies involved in tackling financial crime.

1.7   The responses of individual firms to the survey are confidential, so we have aggregated the data in this report. Firms will submit these data returns annually, allowing us to chart the evolution of different threats over time.

1.8   See Annex 1 for more detail on the data used in this report.

2   Number of customers posing a higher risk

Customer relationships covered in these data

2.1   Institutions submitting the return had a total of 549 million customer relationships, of which 427 million (or 78%) are in the UK. A further 113 million (or 21%) of the total number of relationships are in the rest of the European Economic Area.

Table 1: total number of customer relationships for the financial sector, 2017

		Total number of customer relationships	Share of total
Global total		548,678,586	100%
Europe	United Kingdom	427,812,266	77.97%
	Other EEA	113,152,904	20.62%
	Other Europe	1,769,476	0.32%
Middle East		921,599	0.17%
North America		1,104,322	0.20%
Central America		187,926	0.03%
South America		850,564	0.16%
Asia		1,846,279	0.34%
Oceania		1,033,250	0.19%

2.2   Table 2 shows how many of these customers are deemed to pose a higher money laundering risk. Firms identified 120,000 'politically exposed persons' among their customer bases.

2.3   Politically exposed persons, or 'PEPs' are people with prominent public jobs who may be in a position to abuse their role for private gain; see Regulation 35 of the Money Laundering Regulations 2017. There were also 11,000 non-EEA correspondent banking relationships. The law requires firms to treat these customers as high risk.

2.4   Firms had 1.6 million other 'high-risk customers'. This covers customers or clients the firm categorised as being high-risk for reasons other than the customer being a politically exposed person or a non-EEA correspondent bank. Financial firms are obliged to perform this risk assessment by the Money Laundering Regulations, which also requires such customers to be subject to enhanced customer due diligence measures. Overall, these customers represent a very small proportion of the total customer base. Note the same individual customers may appear several times in these figures because individuals and businesses will often have multiple financial relationships.

Table 2: Total number of high-risk customer relationships, 2017

	Total number of customer relationships	Share of all customer relationships
Politically exposed persons (PEPs)	119,562	0.02%
New PEPs in reporting period	21,906	-
Non-EEA correspondent banking relationships	10,973	-
New non-EEA correspondents in reporting period	613	-
Other high-risk customers	1,596,539	0.29%
New 'other high-risk' customers in reporting report	627,740	0.11%
Customers linked to high-risk jurisdictions	1,247,934	0.23%

3   What the industry is doing to tackle financial crime

Resourcing the fight against financial crime

3.1   Monitoring and addressing the risk that criminals abuse the financial system consumes a significant amount of firms' time and resources. According to our returns, industry collectively employ 11,500 full-time equivalent staff in financial crime roles. We estimate[1] the financial services industry is spending over £650 million annually in dedicated staff time to combat fraud, laundering and other financial crimes.

3.2   The total amount being spent is likely to be much higher than this estimate. The figure does not include other costs including those related to information technology systems, or time taken by the rest of a firm's staff on preventing financial crime. For example, branch staff dealing with customers at counters are in the front line of the industry's efforts to tackle fraudsters and money launderers. We did not ask firms to provide estimates of these wider costs because of the practical difficulties of doing so.

Reporting financial crime

3.3   The law requires employees of financial firms to report knowledge or suspicion of money laundering within the organisation. Staff at all levels, and automated systems, escalated 923,000 suspicious cases internally. This includes reports filed to the Money Laundering Reporting Officer (the MLRO - the person charged with coordinating a firm's efforts to counter money laundering) that relate to the staff member's concerns, suspicions or knowledge of money laundering. The reported figure also includes reports received by an MLRO generated by a firm's anti-money laundering or compliance function, or by automated systems. The MLRO considers these reports to decide whether a formal submission to the authorities is justified.

3.4   After investigation, 363,000 of these cases were reported to the National Crime Agency by firms' MLROs. In addition, over 2,100 terrorism-related suspicious activity reports were made to the authorities by firms we regulate.

---

1   The Office for National Statistics publication "*Annual Survey of Hours and Earnings: 2017 provisional and 2016 revised results*" states that the UK median full-time gross weekly earnings for "professional occupations" in April 2017 were £733.1 This equates to £38,121 a year. Adding on 50% for overheads (such as employers' national insurance contributions, accommodation, power, etc.) suggests an annual cost of £57,181. Across 11,497 employees, this will cost, in aggregate, about £657 million.

Table 3: industry-wide financial crime compliance statistics, 2017

Resourcing and activity

Number of full-time equivalent (FTE) UK staff with financial crime roles	11,497 FTE
Number of customer applications refused for financial crime reasons	1,149,542
Number of customer relationships exited for financial crime reasons	374,976

Liaising with the authorities

Internal suspicion reports escalated within firms	922,544
Number of Suspicious Activity Reports (SARs) filed with the National Crime Agency	363,135
Consent SARs filed	13,774
Terrorism SARs filed	2,117
Investigative court orders received during reporting report	123,028
Restraint orders in effect	15,930
New restraint orders during reporting period	4,364

Introducers

Relationships maintained with introducers	858,876
Introducer relationships exited for financial crime reasons	786
Appointed Representative relationships exited for financial crime reasons	130

Refusing services because of financial-crime risk

3.5 Concerns related to financial crime led to firms turning away some prospective customers. This might be because the prospective customer was thought to pose an unacceptable fraud or money laundering risk. In many of these cases, the firm's dedicated financial crime experts scrutinise the customer's application and escalate it to management.

3.6 Firms refused to provide services for a total of 1.15 million prospective customers for financial crime-related reasons in the year our data covers. In addition, 375,000 existing customers were turned away because of these concerns. Worries about financial crime led to nearly 800 introducer relationships (where firms do business via go-betweens) being ended, including over 100 with Appointed Representatives.

3.7 As well as alerting law enforcement agencies to suspicious behaviour, financial firms handled many requests from the police. Law enforcement agencies submitted 123,000 investigative orders (as defined by the Proceeds of Crime Act 2002) to financial firms seeking information about their customers. A total of nearly 16,000 restraint orders were in effect to freeze customers' money, of which over a quarter were new during the reporting period.

3.8 Engagement between the police forces and financial firms is crucial to supporting a wide range of law enforcement investigations, and many prosecutions depend on evidence only available from such liaison.

4 Fraud risks by type – industry perceptions

4.1 We asked firms what types of fraud they judge to be of greatest concern.

Prevalence of fraud

4.2 Chart 1 shows what proportion of firms that responded to this question cited each fraud type as being one of the 'top three most prevalent frauds the FCA should be aware of'.

Chart 1: firms' assessment of the prevalence of frauds, 2017
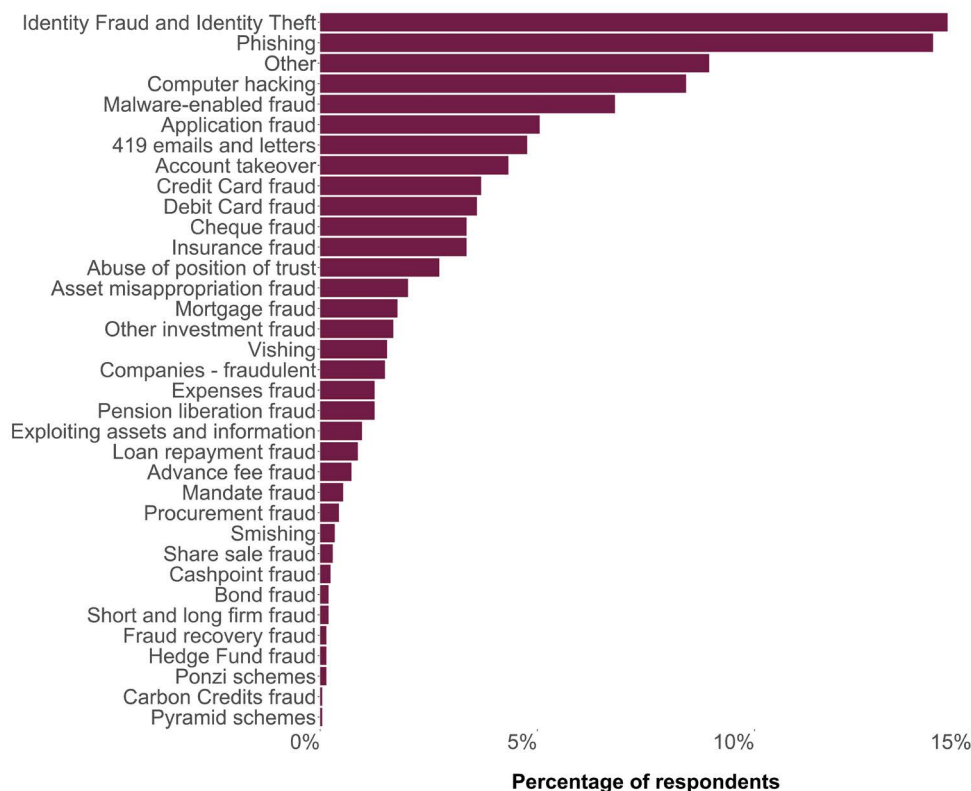
4.3 Cyber-crime is shown to be a key concern, with many of the frauds that were most frequently mentioned (such as identity theft and phishing) enabled by information technology. Nonetheless, some long-established crimes (such as account takeover, insurance fraud, card fraud and even cheque fraud) were also highly cited threats.

4.4 We are responsible for tackling unauthorised businesses such as boiler rooms and investment scams: see ScamSmart. Investment fraud was cited almost as often as mortgage fraud as an issue, with a range of perpetrators and victims being affected.

4.5 The types of crime (many of which overlap) shown here are taken from the 'A to Z' of fraud published by Action Fraud, the UK's national reporting centre for fraud and cyber-crime.

Perpetrators by fraud type

4.6 Chart 2 shows industry's perceptions of who the perpetrators of fraud are: it shows, for firms that cited each fraud type as being among the most prevalent, what type of person or group they suspected to be the perpetrator.

Chart 2: suspected perpetrator, by fraud type, 2017
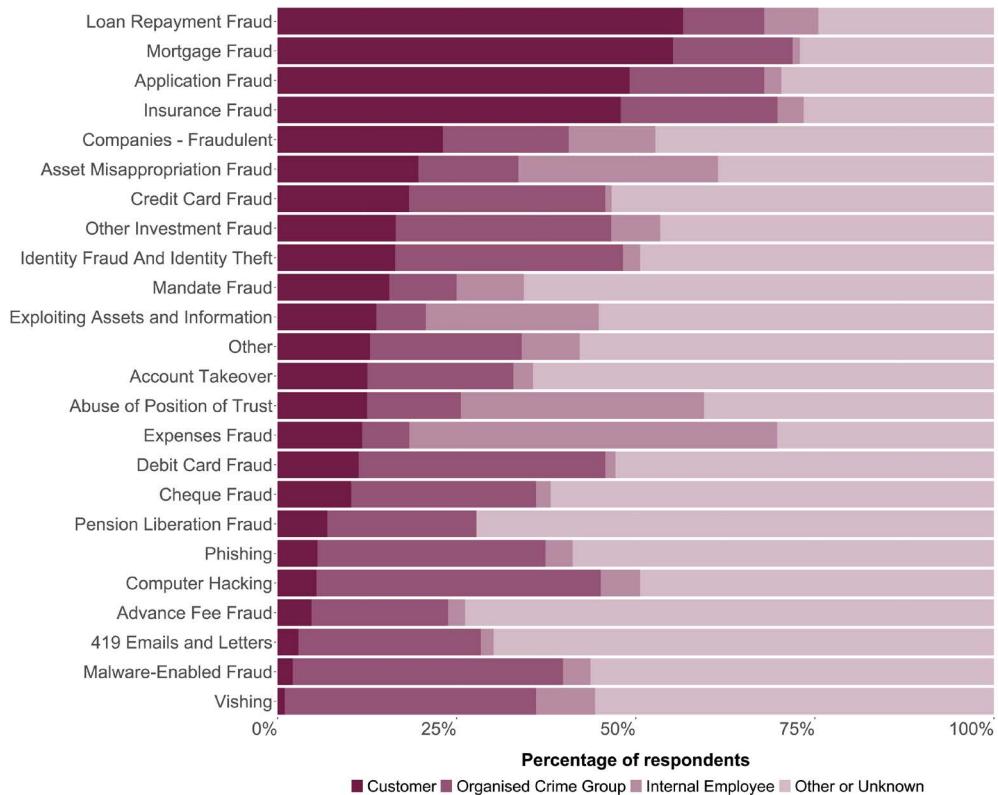
4.7 Rogue customers are perceived to be the principal perpetrators of crimes such as application fraud, insurance fraud, mortgage fraud and loan repayment fraud. Employees are similarly believed to be behind most expenses fraud and situations where fraud results from a person abusing a position of trust. Meanwhile, firms suspect organised criminal groups are responsible for a sizeable proportion of computer-enabled fraud, card fraud, and identity theft. However, most respondents did not feel able to identify the type of perpetrator likely to be behind most kinds of fraud.

Fraud victims by type

4.8   Chart 3 shows who firms think are the primary victims of different types of fraud.

Chart 3: Primary victim, by fraud type, 2017
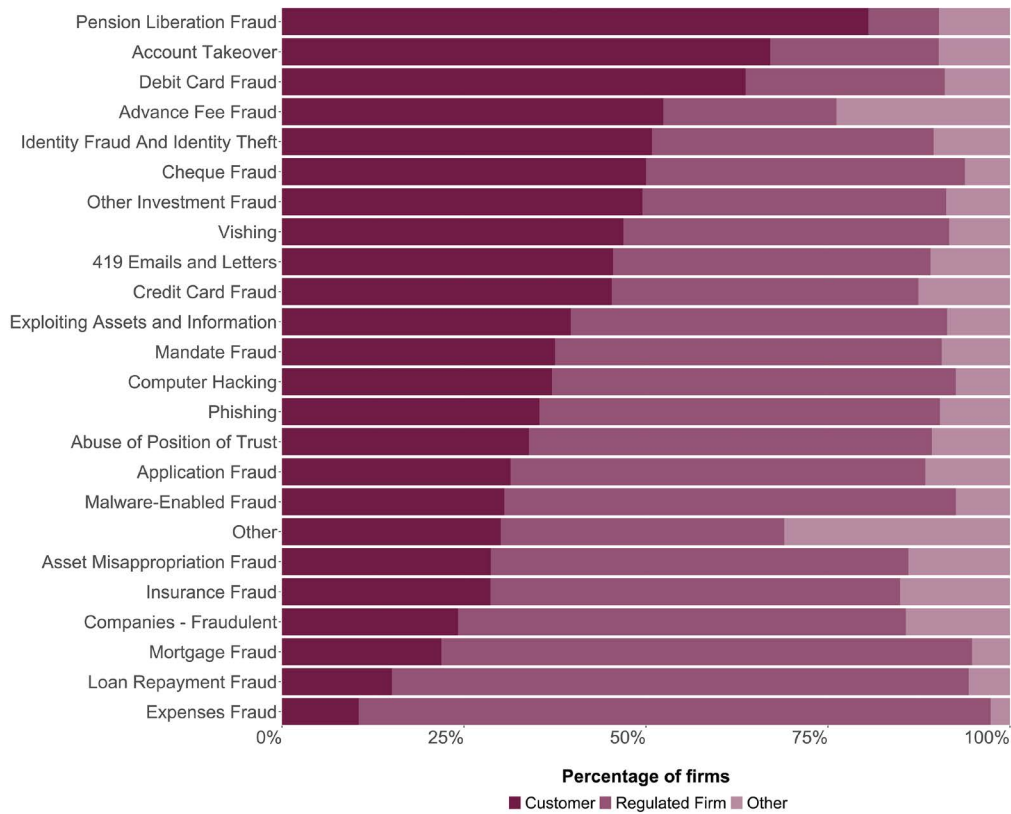
4.9   The fraud types for which customers (as opposed to firms) were most often identified as the victim were pension liberation fraud (where people are, for example, misled into transferring their pension pot early and incur a big tax penalty), account takeover, and debit card fraud. Meanwhile, industry was felt to be more often the victim of expenses fraud, loan repayment fraud, and mortgage fraud.

Fraud – increasing or decreasing

4.10   Chart 4 shows, for all types of fraud, most respondents who expressed a view thought the fraud was growing. The dark purple bar displays the proportion of respondents that felt that fraud type was increasing, while the pink bar shows the proportion that believed it to be decreasing; this is overlaid with a light purple bar netting out these two values.

Chart 4: proportion of firms that perceived the incidence of fraud increased or decreased, by fraud type, 2017
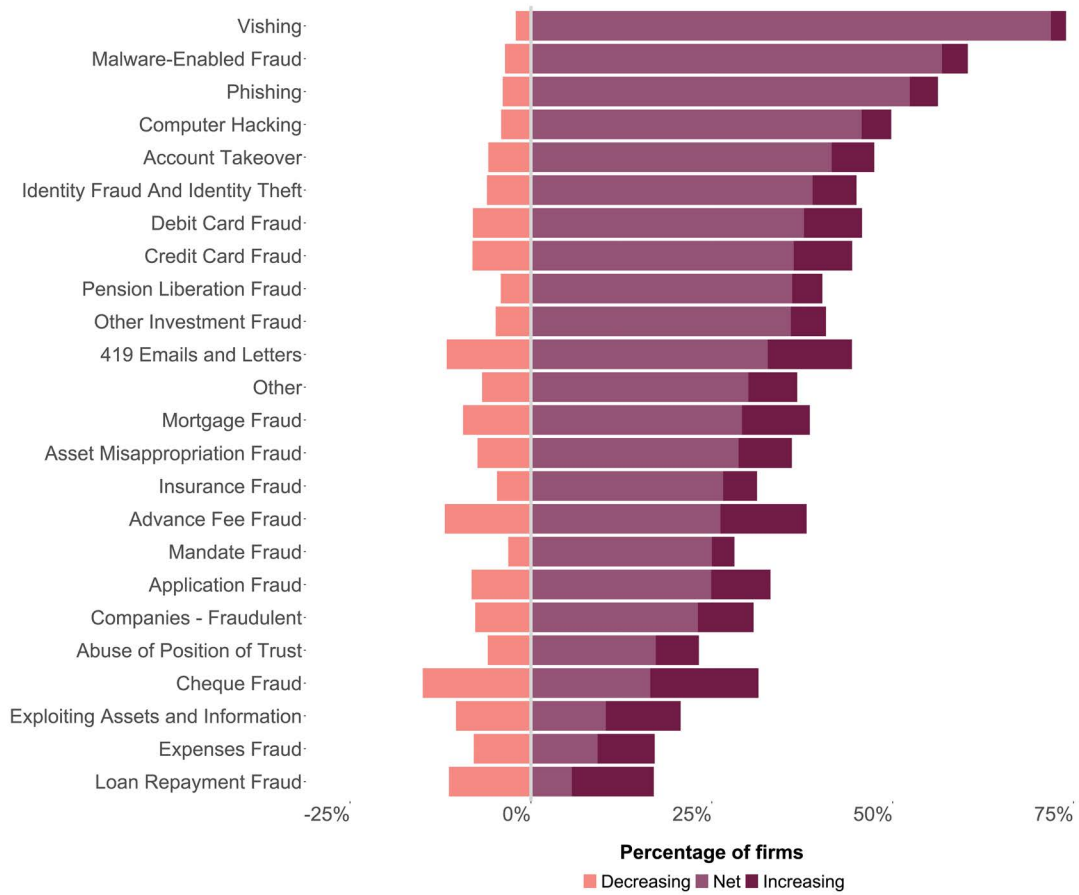
4.11 Frauds enabled by new technology were widely perceived to be growing in volume. Cheque fraud, expense fraud and loan repayment fraud are three examples of frauds where a smaller majority of respondents felt the incidence was rising.

5   Firms' views of country risks

5.1   We asked firms to list which jurisdictions they had assessed and considered to be a high financial crime risk. Table 4 aggregates these data. It shows which territories were most often classified as high risk by firms that are jointly supervised by the FCA and Prudential Regulation Authority. This means deposit-takers (such as banks and building societies), investment banks (also known as 'PRA-designated investment firms') and life insurers. So this chart can be considered as representing the collective view of the largest players in the UK's financial system.

5.2   **This ranking does not represent the opinion of the FCA.** It is an aggregation of industry's views that we are providing to help firms' manage financial crime risks.

5.3   Respondents rated countries based on 'financial crime' risk: this may cover a variety of threats, including sanctions breaches, fraud and bribery. In other words, it does **not** just show industry's view of money laundering risk. Some jurisdictions may be considered 'high risk' less often because fewer firms have performed a risk assessment of these places (potentially because they have no customers linked to that country) rather than because these locations truly represent a lower financial crime risk.

Table 4: ranking of how frequently firms consider jurisdictions to be high risk, 2017

Rank	ISO code	Jurisdiction	Rank	ISO code	Jurisdiction	Rank	ISO code	Jurisdiction
1	IRN	Iran	29	AGO	Angola	55	UZB	Uzbekistan
2	PAN	Panama	30	CAF	Central African Republic	56	PRY	Paraguay
3	RUS	Russia				57	VNM	Vietnam
4	IRQ	Iraq	31	BDI	Burundi	58	COG	Congo (Republic)
5	LAO	Laos	32	BLR	Belarus	59	COL	Colombia
6	AFG	Afghanistan	33	BOL	Bolivia	60	ECU	Ecuador
7	LBN	Lebanon	34	TUR	Turkey	61	NIC	Nicaragua
8	LBY	Libya	35	AZE	Azerbaijan	62	PSE	State of Palestine
9	NGA	Nigeria	36	COD	Congo (Democratic Republic)	63	SSD	South Sudan
10	SYR	Syria				64	TCD	Chad
11	YEM	Yemen	37	GNB	Guinea-Bissau	65	ALB	Albania
12	MMR	Myanmar	38	IDN	Indonesia	66	COM	Comoros
13	SDN	Sudan	39	TJK	Tajikistan	67	IND	India
14	UGA	Uganda	40	DZA	Algeria	68	SLE	Sierra Leone
15	SOM	Somalia	41	GIN	Guinea	69	THA	Thailand
16	ZWE	Zimbabwe	42	GUY	Guyana	70	DJI	Djibouti
17	LBR	Liberia	43	KAZ	Kazakhstan	71	KGZ	Kyrgyzstan
18	PRK	North Korea	44	CUB	Cuba	72	MLI	Mali
19	VEN	Venezuela	45	VUT	Vanuatu	73	TUN	Tunisia
20	CIV	Cote D'ivoire	46	ETH	Ethiopia	74	ARE	United Arab Emirates
21	ERI	Eritrea	47	HND	Honduras			
22	KEN	Kenya	48	MEX	Mexico	75	CMR	Cameroon
23	PAK	Pakistan	49	TKM	Turkmenistan	76	NER	Niger
24	BIH	Bosnia-Herzegovina	50	TZA	Tanzania	77	PNG	Papua New Guinea
25	EGY	Egypt	51	BGD	Bangladesh	78	SRB	Serbia
26	HTI	Haiti	52	DOM	Dominican Republic	79	BEN	Benin
27	KHM	Cambodia	53	GTM	Guatemala	80	BLZ	Belize
28	UKR	Ukraine	54	NPL	Nepal			

Rank	ISO code	Jurisdiction
81	CHN	China
82	GNQ	Equatorial Guinea
83	LKA	Sri Lanka
84	PHL	Philippines
85	ARG	Argentina
86	MDG	Madagascar
87	MDA	Moldova
88	TGO	Togo
89	BHS	Bahamas
90	GHA	Ghana
91	GMB	Gambia
92	MHL	Marshall Islands
93	PER	Peru
94	BRA	Brazil
95	CYP	Cyprus
96	MAR	Morocco
97	MRT	Mauritania
98	SWZ	Swaziland
99	VGB	British Virgin Islands
100	ZMB	Zambia
101	MDV	Maldives
102	MOZ	Mozambique
103	SYC	Seychelles
104	GAB	Gabon
105	JAM	Jamaica
106	MAC	Macao
107	MNE	Montenegro
108	SAU	Saudi Arabia
109	ARM	Armenia
110	CRI	Costa Rica
111	CYM	Cayman Islands
112	LIE	Liechtenstein
113	MNG	Mongolia
114	NRU	Nauru
115	SLV	El Salvador
116	TCA	Turks and Caicos Islands
117	ATG	Antigua and Barbuda
118	KWT	Kuwait
119	STP	Sao Tome And Principe
120	BFA	Burkina Faso
121	BHR	Bahrain
122	KNA	Saint Kitts and Nevis
123	LVA	Latvia
124	SUR	Suriname
125	MCO	Monaco
126	NAM	Namibia
127	COK	Cook Islands
128	NIU	Niue
129	RWA	Rwanda
130	TLS	Timor-Leste (East Timor)

Rank	ISO code	Jurisdiction
131	TTO	Trinidad And Tobago
132	BGR	Bulgaria
133	MYS	Malaysia
134	AND	Andorra
135	FJI	Fiji
136	FSM	Micronesia (Federated States)
137	LCA	St. Lucia
138	MKD	Macedonia
139	MWI	Malawi
140	BRN	Brunei Darussalam
141	MSR	Montserrat
142	VAT	Holy See (Vatican City State)
143	AIA	Anguilla
144	KIR	Kiribati
145	LSO	Lesotho
146	BMU	Bermuda
147	TON	Tonga
148	GRD	Grenada
149	ISR	Israel
150	VCT	St. Vincent & Grenadines
151	VIR	Virgin Islands, U.S.
152	GIB	Gibraltar
153	JOR	Jordan
154	PLW	Palau
155	TUV	Tuvalu
156	ASM	American Samoa
157	CUW	Curacao
158	QAT	Qatar
159	SEN	Senegal
160	SLB	Solomon Islands
161	DMA	Dominica
162	FLK	Falkland Islands
163	ROU	Romania
164	SMR	San Marino
165	WSM	Samoa
166	ZAF	South Africa
167	ABW	Aruba
168	BTN	Bhutan
169	GRC	Greece
170	GUM	Guam
171	BRB	Barbados
172	CPV	Cape Verde
173	PRI	Puerto Rico
174	ALA	Aland Islands
175	GLP	Guadeloupe
176	MTQ	Martinique
177	OMN	Oman
178	XKX	Kosovo
179	BES	Caribbean Netherlands
180	GGY	Guernsey

Rank	ISO code	Jurisdiction
181	HRV	Croatia
182	IMN	Isle of Man
183	MUS	Mauritius
184	PYF	French Polynesia
185	UMI	US Minor Outlying Islands
186	FRO	Faroe Islands
187	GEO	Georgia
188	GRL	Greenland
189	GUF	French Guiana
190	ITA	Italy
191	JEY	Jersey
192	URY	Uruguay
193	BWA	Botswana
194	EST	Estonia
195	LTU	Lithuania
196	SXM	Sint Maarten
197	CZE	Czech Republic
198	KOR	South Korea
199	LUX	Luxembourg
200	MLT	Malta
201	TWN	Taiwan, China
202	HUN	Hungary
203	CHL	Chile
204	SGP	Singapore
205	SVK	Slovakia
206	CHE	Switzerland
207	GBR	United Kingdom
208	HKG	Hong Kong
209	SVN	Slovenia
210	ESP	Spain
211	NLD	Netherlands
212	POL	Poland
213	IRL	Ireland
214	ISL	Iceland
215	JPN	Japan
216	NZL	New Zealand
217	PRT	Portugal
218	AUS	Australia
219	AUT	Austria
220	BEL	Belgium
221	CAN	Canada
222	DNK	Denmark
223	FIN	Finland
224	FRA	France
225	DEU	Germany
226	NOR	Norway
227	SWE	Sweden
228	USA	United States of America

This data is represented graphically in Chart 5.

Chart 5: map of the frequency that countries were considered high risk by firms, 2017

Less frequently
considered high risk

More frequently
considered high risk
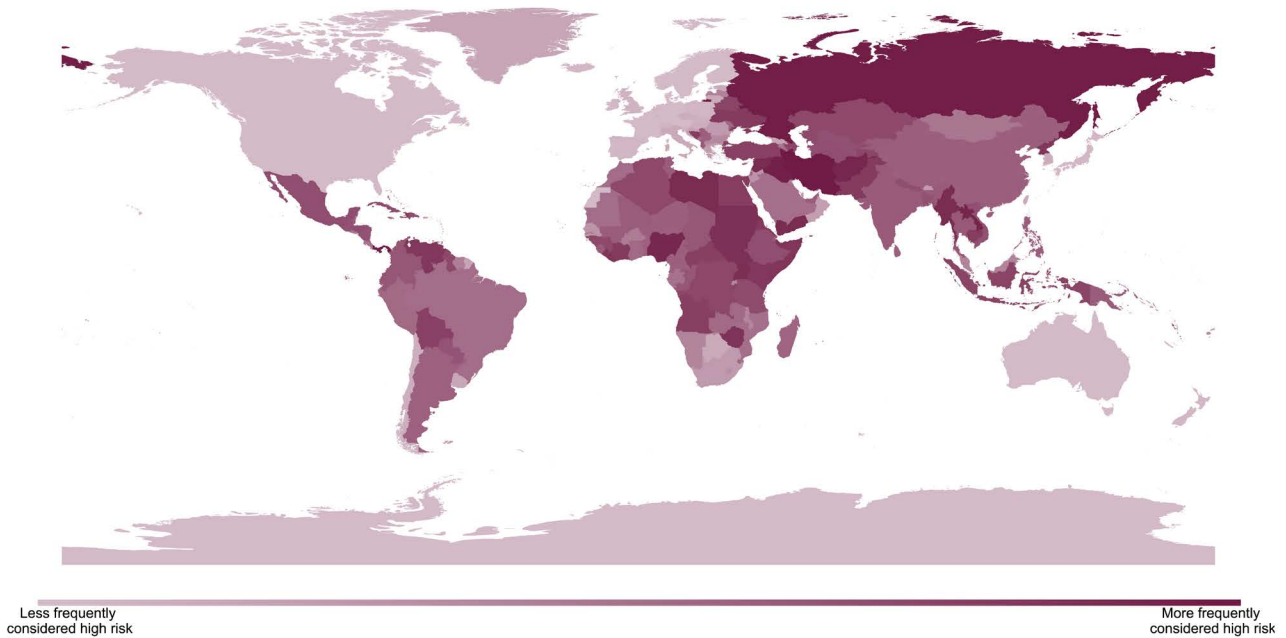
Contacting us

5.4   If you have any queries about this data, or suggestions for future statistical disclosures on financial crime, please let us know. Email REP-CRIMqueries@fca.org.uk, with the subject 'DATA PUBLICATION'.

Annex 1
Data quality

When considering the data in this report, please note:

- Firms submitted their returns covering 2017 on their accounting reference date, providing data for the previous 12-month period. Because this date differs between firms, not all figures submitted will cover the same 12-month period.

- Aggregated figures presented in this document do not cover all businesses we supervise. For example, we did not require smaller firms (with annual turnover below £5 million) to submit this return (although all deposit-taking institutions had to complete the return, regardless of size).

- The data only cover legal entities we supervise; a firm's overseas operations regulated abroad will not feature in these statistics.

- We recognise it will take time for firms to get used to the new return, and build the systems to gather data. So we said firms should compile the first year's data on a 'best efforts' basis.

- Some firms' submissions have been withdrawn from the sample after failing data quality checks, and we have not included them in the aggregated statistics in this paper.

- Firms' responses to the fraud sections of the financial crime return were voluntary: not all respondents completed this section.

- The chart showing fraud data only includes submissions that used drop-down multiple-choice answers: respondents could also submit free-form text in their responses to the questions about fraud, but these responses are not shown in our charts. Also, some fraud types were mentioned infrequently, so we have not included them in Charts 2 to 4.

FCA FINANCIAL
CONDUCT
AUTHORITY