

# **The Effectiveness of Anti-Money Laundering (AML) System in the United Kingdom**

*By Shreya Modi*

*LLM Student, Newcastle University Law School, Newcastle Upon Tyne, UK*

---

---

## **Abstract**

*“The costs of AML compliance in the UK have been rising disproportionately for over a decade, yet levels of financial crime continue to rise. So, perhaps it is time to think about how effective present anti-money laundering (AML) controls are at an operational level. As such, a difficult but honest question needs to be asked: is the present AML system broken and no longer fit for purpose?”*

The statement emphasizes a valid concern over the effectiveness of the current anti-money laundering (AML) system in the United Kingdom. Although the expenses associated with AML compliance are increasing, there is also a simultaneous rise in financial crime, suggesting that the existing AML procedures may be insufficient.

### **The costs of AML compliance**

The UK's regulatory framework for combating money laundering is overseen by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017). These rules require enterprises to take a range of procedures to prevent, identify, and report cases of money laundering. These steps include completing risk assessments, undertaking client due diligence, continuously monitoring, and preserving detailed records. Businesses, particularly smaller organisations, may face significant cost challenges when implementing and maintaining these AML compliance procedures. The requirements encompass several industries, such as accountants, attorneys, and real estate brokers, who are all required to spend resources to guarantee adherence to their anti-money laundering (AML) duties. This may entail allocating resources towards acquiring equipment, providing training to staff members, and recruiting specialized individuals to ensure compliance.<sup>i</sup>

The financial institutions and the non-financial businesses that are obligated to comply with the anti-money laundering requirements are those that are mentioned in section 9 of the Proceeds of Criminal Act 2002 (POCA). Credit institutions, financial institutions, external accountants, auditors, insolvency practitioners, tax advisers, independent legal professionals, estate agents, trust or company service providers, high-value merchants, and casino operators<sup>ii</sup> are all included.<sup>iii</sup>

The following actions must be taken by businesses to comply with UK money laundering laws:

#### ***A risk evaluation***

The AML strategy of an organisation requires a comprehensive risk assessment. This comprehensive investigation scrutinises consumer demographics, geographic reach, and the nature of your offerings in order to detect and assess potential money laundering risks for a company. Money laundering risks may increase if a business operates in high-crime areas or caters to high-risk customers. However, It is critical to regularly review and revise risk assessments in order to maintain the effectiveness and relevance of anti-money laundering (AML) controls in the face of changing circumstances, threats, and regulatory requirements. By integrating a thorough risk assessment into the AML framework, an organisation can

enhance its risk management capabilities and ensure compliance with money laundering regulations in the United Kingdom.

### ***Customer verification of due diligence***

Customer Due Diligence (CDD) checks are administered by organisations in order to validate the identities of their clients, obtain information regarding their business affiliations, and assess the risk profiles linked to anti-money laundering (AML) compliance. Validating transactions and preventing money trafficking are both dependent on CDD. High-risk consumers must undergo EDD evaluations so that a more exhaustive understanding of their financial history and present circumstances can be obtained. EDD procedures may encompass activities such as funds verification, information acquisition, and risk profile monitoring to identify suspicious transactions or changes.

### ***Assessment for AML***

An effective anti-money laundering (AML) compliance strategy necessitates the screening of consumers against sanctions lists, PEP lists, and negative publicity. This approach aids organizations in recognizing potential hazards linked to clients who are economically disadvantaged, occupy high-profile public roles, or have adverse media attention indicating financial impropriety or illicit undertakings. These screening procedures must be revised and updated to reflect the development of regulations, risks, and client risk profiles.

### ***By implementing thorough and regular customer inspections***

Organizations can enhance brand safeguarding, comply with regulations in the United Kingdom, and reduce the likelihood of money laundering.

### ***Constant Vigilance***

Constant Vigilance and regular monitoring are critical components of a successful AML compliance strategy. Businesses can identify suspicious client transactions and behaviours that could potentially signify money laundering or other illicit activities by conducting routine examinations of them. Risk profiles, transaction volumes, frequencies, counterparties, and consumer conduct may all be monitored. Money laundering monitoring facilitates prompt

investigations and reports of suspected activities to authorities, among other capabilities, for organizations.

### ***Storage and Documentation Accuracy***

A comprehensive AML compliance program requires AML checks, transaction records, and current and accurate client information. Organizations have the ability to exhibit their compliance with regulatory obligations and expedite responses to audits and inquiries by conscientiously controlling this documentation. In the United Kingdom, money laundering legislation imposes a legal requirement on organisations to maintain these documents for a duration of five years. Their purpose is to provide a readily accessible and verifiable audit trail. By enabling the detection and aversion of money laundering, this rigorous approach to record-keeping protects the standing and acceptance of a company within its industry. Owing to a reasonable suspicion of money laundering or terrorism financing, organisations are obligated to submit mandatory SARs (Suspicious Activity Reports) to the National Crime Agency when applicable. Financial crime is deterred, SARs aid law enforcement, and they serve as evidence of a company's regulatory compliance. To improve the efficacy of reporting, personnel must have a thorough understanding of SARs and their submission. Organizations protect the financial system by assisting their personnel in recognizing and reporting suspicious conduct through the promotion of vigilance and awareness.

### ***Personnel screening and training***

Staff AML training is an essential element of a comprehensive compliance strategy in the United Kingdom, as it provides them with the necessary knowledge and skills to comply with regulations pertaining to money laundering. Employees develop the capacity to detect and prevent money laundering by means of continuous training. The implementation of rigorous staff verification protocols, coupled with educational endeavours, effectively reduces occurrences of internal fraud and money laundering.<sup>iv</sup>

The increasing expenses associated with AML compliance have been supported by numerous research studies carried out in recent decades. For example, from 2004 to 2007, the costs associated with Anti-Money Laundering (AML) compliance increased by an average of 58% globally, according to research conducted by KPMG. Based on the regulatory revisions implemented in the United Kingdom in 2012, KPMG projected that the yearly expenditures

associated with anti-money laundering measures surpassed £90 million in 2014. In the interim, the British Bankers' Association (BBA) reported that the annual expenditure of its members exceeded £5 billion. The Home Office's 2014 research offers a significant insight into the problem's scope by approximating the annual social and economic costs associated with organized crime in the United Kingdom to a minimum of £24 billion.

However, in spite of the growing focus on Anti-Money Laundering and Regulation (AMLR), there is still not a remarkable downfall of financial frauds. According to the BDO 2014 Fraudtrack Report<sup>13</sup>, money laundering (ML) and fraudulent activities increased by 309%. This surge in attention generated significant international concern, as evidenced by a recent 12% increase in the number of foreign agencies investigating ML (as of June 2017).<sup>v</sup>

### **Persistence of Financial Crimes**

Despite the considerable investment in Anti-Money Laundering (AML) compliance, money laundering continues to be a pervasive problem in the United Kingdom. The National Strategic Assessment 2019 of the National Crime Agency estimates that severe and organised crime, including money laundering, annually costs the United Kingdom economy billions of pounds. This suggests that the current anti-money laundering (AML) system is failing to effectively detect or prevent financial crimes. A multitude of factors contribute to the persistent prevalence of financial crime, despite the escalating costs linked to compliance with Anti-Money Laundering (AML) regulations. The complexity of money laundering techniques: The ever-evolving methods employed by money launderers to evade detection present an ongoing obstacle for anti-money laundering procedures. Incorporating strategies such as the utilisation of proxy corporations, digital currencies, and international transactions may present obstacles for businesses seeking to identify and divulge potentially unlawful activities. Insufficient Coordination and Information Exchange meaning Effective anti-money laundering (AML) initiatives necessitate the collaboration and sharing of information among various private sector organisations, government agencies, and financial institutions. However, impediments to information exchange and the absence of a unified, cross-sector strategy could hinder the effectiveness of the AML.

Despite the presence of a comprehensive anti-money laundering (AML) regulatory framework, the United Kingdom's enforcement and penalties for failing to comply with AML legislation may not be sufficiently rigorous to dissuade financial offenders. Inadequate enforcement may result in a reduction of the deterrent impact of the Anti-Money Laundering (AML) system. The concepts of regulatory burden and compliance fatigue refer to the growing complexity and financial burden associated with the implementation of anti-money laundering (AML) regulations. This may lead to organizations experiencing a sense of being inundated and placing administrative responsibilities above the implementation of effective risk-based controls. This may reduce the effectiveness of the AML system as a whole. <sup>vi</sup>

### **Can an AML system have a defect?**

The statement presents a tough query about the determination of whether the current AML system is "broken and no longer suitable for its intended purpose." Compelling reasons may be produced in favor of both sides of the issue. The International Financial Institutions regard it as one of the principal causes of underdevelopment, if not the fundamental one. Corruption has led to the downfall of governments and the emergence of political instability. This section is based on two compelling arguments that support the use of AML systems to combat corruption, in addition to the general importance of addressing corruption. One important factor is the extent to which there is overlap, as meeting global AML requirements is typically required to comply with international anti-corruption norms. The second factor, which is more significant, is the high cost and current lack of utilisation of AML systems. Prior to its expansion to developing nations, the AML regime solely applied to wealthy countries. However, as the system has grown, poorer governments have been required to incur increasingly higher costs, both directly and indirectly, in order to adhere to global best practices. Corruption often serves as the primary means of generating funds for money laundering in developing countries, which often have less advanced financial crime systems compared to wealthier ones. These developing countries also tend to have smaller financial sectors and more localised illicit drug economies. (World Bank 2007, 68). Expensive anti-money laundering (AML) measures have not yet been utilised to address corruption. Complying with current international anti-corruption rules requires meeting the international AML requirements. Although the practical application may not have fully occurred yet, international conventions are increasingly

recognising the interconnections in responding to various interconnected types of financial crimes. The United States Convention against Corruption, adopted by 117 states and signed by 140 as of June 2008, exemplifies the significant legal overlap in this context (United Nations Office on Drugs and Crime [UNODC] site). Furthermore, signatories of the 2000 Palermo Convention, the 1988 Vienna Convention, and the 2002 accord on the funding of terrorism are also obligated to adopt the core principles of anti-money laundering (AML) policy. Collectively, these three conventions necessitate that state parties establish mechanisms to diligently scrutinise the customers of financial institutions, criminalise acts of corruption and schemes related to money laundering, implement a system for reporting suspicious transactions, establish financial intelligence units (FIUs) to gather and organise financial information for law enforcement purposes, and adhere to the guidance provided by international organisations dedicated to combating money laundering. The United Nations Committee on Arms Control (UNCAC) requires comparable obligations, specifically outlined in Articles 14, 23, 52, and 58. The proposal also includes measures such as creating systems to monitor the movement of cash across borders, exchanging information on wire transfers, thoroughly scrutinising the financial activities of public officials, and ensuring cooperation between judicial, law enforcement, and financial regulatory agencies (Commonwealth/Chatham House 2006). The Inter-American Convention against Corruption and the ADB/OECD Action Plan for the Asia-Pacific are regional treaties established by the Organisation of American States, the African Union, and the ADB. These accords focus on addressing similar challenges related to corruption. These conventions have comparable provisions. Hence, in order to comply with international standards in combating illicit drug trafficking, organised crime, terrorism financing, and particularly corruption, governments must enforce the laws, regulations, and institutions that constitute the Anti-Money Laundering (AML) system.<sup>vii</sup>

### ***Rationale for the Demolition of the AML System***

1. Inadequacy in the prevention and detection of money laundering attempts: The continuous increase in financial crime, despite the growing costs of complying with anti-money laundering (AML) regulations, suggests that the current system is inadequate in successfully stopping and detecting money laundering activities.

2. Unequal Imposition on Enterprises: The significant costs of compliance that firms, particularly smaller organisations, are required to bear may be disproportionate to the actual progress accomplished in reducing financial crime. This finding implies that the system's efficiency and effectiveness are not being fully optimized.

3. Inadequacy of a Comprehensive, Risk-Based Approach: The regulations for preventing money laundering (AML) may place too much importance on following specific rules and checking off compliance checklists while neglecting the need for a more thorough, risk-focused strategy that takes into account the constantly evolving nature of financial crime. Insufficient Coordination and Information Sharing: The system's ability to combat financial crime may be hindered by the lack of effective coordination and information sharing among its many players in the anti-money laundering (AML) ecosystem.

### ***Why the AML System is Ineffective***

Stringent Regulatory Framework: The AML regulatory framework of the United Kingdom, outlined in the MLR 2017, is considered comprehensive and in conformity with international standards. This suggests that the system may require improvements and modifications rather than being fundamentally flawed. Additionally, Ongoing Efforts to Enhance Effectiveness: The U.K. government and regulatory bodies are continuously involved in initiatives to improve the efficiency of the anti-money laundering (AML) system. These endeavours encompass the continuous modifications to the MLR 2017 and the execution of the Economic Crime Plan 2019-2022. Moreover, the Importance of AML Compliance: Despite the substantial costs involved with AML compliance, the cruciality of preventing and detecting financial crime cannot be overstated. The Anti-Money Laundering (AML) system plays a crucial role in safeguarding the public interest and maintaining the financial system's integrity. Lastly, Challenges Inherent in Combating Financial Crime: Financial crime continues to be a significant hurdle worldwide, and it is unlikely that any anti-money laundering (AML) system can attain complete efficacy. Continual adjustments and modifications to the AML system may be required due to the intricate nature of the issue and the continuous development of money laundering methods, rather than a comprehensive revamp. <sup>viii</sup>

## Conclusion

Developing nations are currently battling an almost absurd policy disparity: Even though these countries suffer greatly from corruption, they are not making the most of the investments they have made in anti-money laundering (AML) systems, which might help combat corruption. In most developing countries, corruption is the most common financial crime and can completely impede economic growth. Thus, even a small progress in this area would result in significant benefits for the country's general well-being. Asset seizure and financial intelligence are two of the most helpful elements of anti-money laundering (AML) systems when it comes to following the money trail in corruption investigations. Developing nations devote a great deal of time and money on upholding global norms in this area. All too often, though, these systems are seen by outside audiences as nothing more than a spectacle rather than as a useful tool to deal with pressing local challenges. The remark underscores a valid concern regarding the effectiveness of the current Anti-Money Laundering (AML) framework in the United Kingdom. The escalating expenses associated with AML compliance are juxtaposed with the growing incidence of financial crime, which suggests that the existing measures in place to prevent AML may not be adequately effective. However, the matter concerning whether the AML system is "defective and no longer suitable for its intended use" is complex, as it involves persuasive arguments from both sides. The United Kingdom's AML regulatory framework is comprehensive and in accordance with global standards. Ongoing efforts are being undertaken to enhance the system's efficacy. Concurrently, the persistent characteristics of financial crime and the evolving strategies utilised by individuals engaged in money laundering present significant challenges that may require continuous enhancements and modifications to the anti-money laundering (AML) framework. To adequately confront the concerns articulated in the statement, it is imperative to employ a comprehensive and nuanced strategy. This may require the integration of the strategies like conducting an exhaustive, data-centric assessment of the effectiveness of the anti-money laundering (AML) system, focusing particularly on its capability to detect, prevent, and hinder financial impropriety, Rectifying and addressing specific shortcomings in the anti-money laundering (AML) framework, including insufficient coordination and information exchange, ineffectual sanctions and enforcement, or a discrepancy between the financial investment required for compliance and its real-world efficacy. Moreover, not to forget executing an all-encompassing, risk-driven approach to Anti-Money Laundering (AML) compliance that adapts to the evolving financial crime environment

and gives precedence to the most effective and streamlined measures. Finally, enhancing collaboration and the exchange of knowledge among private sector organisations, government agencies, and financial institutions in order to improve the Anti-Money Laundering (AML) system's overall effectiveness. Most Importantly Ensuring the AML regulatory framework is consistently assessed and modified to ensure its efficacy and flexibility in mitigating emerging risks and trends in financial malfeasance. And to enhance the anti-money laundering (AML) system and protect the public interest and financial system, the United Kingdom should implement a comprehensive and empirically supported approach to tackle the issues outlined in the statement.

## **Bibliography**

### *Primary source*

- [www.gov.uk](http://www.gov.uk)
- [www.gamblingcommission.gov.uk](http://www.gamblingcommission.gov.uk)

### *Secondary source*

- Anderson J, 'Anti Money Laundering Laws and Regulations Report 2023-2024 United Kingdom' (*International Comparative Legal Guides International Business Reports*, 20 June 2023) <<https://iclg.com/practice-areas/anti-money-laundering-laws-and-regulations/united-kingdom>> accessed 3 May 2024
- 'Anti-Money Laundering (AML) Compliance for Small Firms' (*The Law Society*) <<https://www.lawsociety.org.uk/topics/anti-money-laundering/aml-compliance-for-small-firms>> accessed 5 May 2024
- 'Duties and Responsibilities under the Proceeds of Crime Act 2002 - Offences under the Proceeds of Crime Act 2002' (*Gambling Commission*) <<https://www.gamblingcommission.gov.uk/guidance/duties-and-responsibilities-under-the-proceeds-of-crime-act-2002/poca-part-2-3-offences-under-the-proceeds-of-crime-act-2002>> accessed 3 May 2024
- 'Stay Updated: Money Laundering Regulations Explained' (*Welcome to LexisNexis - Choose Your Path*) <<https://www.lexisnexis.com/blogs/gb/b/compliance-risk-due-diligence/posts/money-laundering-regulations>> accessed 3 May 2024

### *Journal Articles*

- SHARMAN JC and CHAIKIN D, 'Corruption and Anti-money-laundering Systems: Putting a Luxury Good to Work' (2008) 22 *Governance* 27
- Sumkovski, Igor, 'The Optimal Level of Anti-Money Laundering Regulation for the UK Banking Sector. Banks' Cost of Compliance, De-risking Problem and How to Implement Effective AML Systems and Controls' (Masters thesis, Institute of Advanced Legal Studies, School of Advanced Study, University of London 2017)

## Endnotes

- 
- <sup>i</sup> Anderson J, 'Anti Money Laundering Laws and Regulations Report 2023-2024 United Kingdom' (*International Comparative Legal Guides International Business Reports*, 20 June 2023) <<https://iclg.com/practice-areas/anti-money-laundering-laws-and-regulations/united-kingdom>> accessed 3 May 2024
- <sup>ii</sup> [www.gamblingcommission.gov.uk](http://www.gamblingcommission.gov.uk)
- <sup>iii</sup> 'Duties and Responsibilities under the Proceeds of Crime Act 2002 - Offences under the Proceeds of Crime Act 2002' (*Gambling Commission*) <<https://www.gamblingcommission.gov.uk/guidance/duties-and-responsibilities-under-the-proceeds-of-crime-act-2002/poca-part-2-3-offences-under-the-proceeds-of-crime-act-2002>> accessed 3 May 2024
- <sup>iv</sup> 'Stay Updated: Money Laundering Regulations Explained' (*Welcome to LexisNexis - Choose Your Path*) <<https://www.lexisnexis.com/blogs/gb/b/compliance-risk-due-diligence/posts/money-laundering-regulations>> accessed 3 May 2024
- <sup>v</sup> Sumkovski, Igor, 'The Optimal Level of Anti-Money Laundering Regulation for the UK Banking Sector. Banks' Cost of Compliance, De-risking Problem and How to Implement Effective AML Systems and Controls' (Masters thesis, Institute of Advanced Legal Studies, School of Advanced Study, University of London 2017)
- <sup>vi</sup> [www.gov.uk](http://www.gov.uk)
- <sup>vii</sup> SHARMAN JC and CHAIKIN D, 'Corruption and Anti-money-laundering Systems: Putting a Luxury Good to Work' (2008) 22 *Governance* 27
- <sup>viii</sup> 'Anti-Money Laundering (AML) Compliance for Small Firms' (*The Law Society*) <<https://www.lawsociety.org.uk/topics/anti-money-laundering/aml-compliance-for-small-firms>> accessed 5 May 2024