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# Why Money Laundering is a Problem of Wealthy Nations

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## Wealthy Nations

Wealthy nations are often overlooked as culprits of money laundering. Adriana Melchor argues wealthy nations can be complicit in financial crime even as facilitators, indirectly bolstering the activities of drug traffickers, tax evaders, and other agents of human suffering.

## BY: ADRIANA MELCHOR

Money laundering is a crime often associated with the developing world. Few appreciate that rich countries can play a major role in its perpetuation, inadvertently enabling illicit wealth to penetrate financial systems and private companies.

The UK is a perfect case study to explore this idea. According to Transparency International, there is suspicion that **£4.4 billion (\$5.8bn) of UK property** was bought with suspicious wealth. Another **TI report** published in November 2017 identified over 700 UK-based private companies implicated in large-scale corruption and money laundering cases involving approximately £80 billion. Despite new legislation to ensure UK companies declare their real beneficial owners, corporate vehicles still manage to bend the rules. **Approximately 3,000 companies** listed in the UK's public beneficial ownership register have listed their owner as another company based in a tax haven.

A key reason why a rich country such as the UK is so attractive to money launderers is ironically its reputation as an efficient and lawful jurisdiction in which to do business. Incorporating a private company in **the UK is cheap and quick** with the legal environment providing a

veil of legitimacy to people with bank accounts and companies based in the country. Despite the government's professed commitment to combating financial crime, the policy mechanisms thus far in place are not foolproof. This article will explore some areas of policy and industry that pose the greatest risk.

One of these areas is the governance of UK secrecy jurisdictions where details of company ownership are not disclosed to the public. Since the release of the Panama and subsequent Paradise Papers, it is hardly news to anyone that British Overseas Territories, including the Cayman Islands and British Virgin Islands, have long been the home of anonymous shell companies used for illicit transactions.

The Overseas Territories' role as safe havens for money launderers may be weakened now that government officials agreed to force these jurisdictions to publicize secretive company information by the end of 2020. Still, anti-corruption watchdogs of the likes of Global Witness and TI campaigned for this move years before it materialized. The government should have acted on these campaigns much earlier.

There is also no doubt that British banks and law and accountancy firms are a big part of the problem. Some banks denied serious allegations of money laundering; and the speed and volume of transactions in retail banking makes supervision of this business more complicated. Accountancy and legal services are also attractive to high-end money launderers with significant spending power.

Holding these sectors accountable for their involvement in financial crime may become easier now that the UK has consolidated anti-money laundering supervision under one principal regulatory body. Previously, supervision was executed by a fairly patchwork system of agencies, which often published mixed guidance on financial crime. Only time will tell if the new regime will be more effective than its predecessor.

Finally there is the role of the Companies House, the public agency where over 4 million British companies are registered. The Companies House does not currently perform independent audits on the accuracy of information it receives, an issue widely criticized as enabling company owners to avert proper due diligence

checks. Given the simplicity of company incorporation, such lack of oversight could benefit criminals looking to anonymize their business.

Sadly, Britain is not alone in its failings. The US is also notorious for housing shell companies used to pour illicit money into **property** and, recently, as vehicles of **foreign influence in domestic politics**. At one point, the European Union justice commissioner had rebuked **several member states** for failing to implement anti-money laundering rules on time.

So wealthy nations can be complicit in financial crime even as facilitators, indirectly bolstering the activities of drug traffickers, tax evaders, and other agents of human suffering. Rich governments can and should do more to uphold their commitment to combat money laundering.

Within this context, the ascendancy of cryptocurrency will be an interesting test of policymakers' commitment to crack down on financial crime. Practically anyone can trade in cryptocurrency using **an email address and an identifier**, which offers a great deal of anonymity to criminals wishing to exploit this technology to avoid mainstream financial transactions. Governments can also use this technology to bypass sanctions, as in the case of the **Venezuelan petro**. The money laundering risks are clear and governments should regulate cryptocurrency sooner rather than later, if not to increase their own credibility in the fight against corruption, then at least to give criminals a harder time.

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