BRIEFING PAPER

The Scale of Money Laundering in the UK
Too Big to Measure?

Anton Moiseienko and Tom Keatinge
ABOUT THIS PAPER

This paper is based on a workshop that was generously funded by the Economic and Social Research Council (ESRC), which is part of UK Research and Innovation. The authors are grateful to all workshop participants for their time and expertise. They also wish to thank Graham Brooks, Malcolm Chalmers, Matt Hopkins, Michael Levi, Michele Riccardi and David Shepherd for helpful feedback on an earlier draft.

SUMMARY

Money laundering in the UK is often acknowledged as a serious threat to the country’s reputation, the integrity of its financial sector and, ultimately, its security. Despite the near-universal recognition that concerted action is necessary to tackle money laundering in the UK, the basic question of how much money is laundered in the UK remains unanswered.

This Briefing Paper reports how policymakers and researchers can gain a better understanding of the scale of money laundering in the UK than is currently available.

• Measurements of money laundering should distinguish between: (1) laundering of the proceeds of UK crime; (2) laundering of the proceeds of overseas crime that are invested in the UK,¹ and (3) laundering of the proceeds of overseas crime via the use of UK business infrastructure.²

• Measuring the overall proceeds of UK crime can be based on aggregating the assessments of the volume of proceeds generated by various types of crime. Even if imprecise, the more reliable of those assessments are helpful for establishing the lower bounds of money laundering in the UK.

• To improve the availability and reliability of data on criminal proceeds generated or laundered in the UK, law enforcement agencies should ensure that the information on criminal proceeds generated during investigations and trials is recorded and analysed, subject to necessary legal safeguards.

• Measuring the proceeds of overseas crime that are either invested in the UK or laundered via the use of UK business infrastructure is especially challenging because the underlying crimes (known as ‘predicate crimes’) take place outside the UK. Analysis of case studies and suspicious activity reports (SARs) can provide a partial picture of the scale of money laundering that, although not comprehensive, can be used in the absence of better data.

¹. For example, by purchasing real estate or investing in UK-based businesses.
². For example, the services of UK-based advisers or the use of UK-incorporated entities.
The paper is based on an expert roundtable workshop held at the Royal United Services Institute (RUSI) on 10 December 2018, which brought together 31 participants from the UK government, law enforcement agencies, academia, and the private sector. The discussion was held under the Chatham House rule.

INTRODUCTION

DEFINING MONEY LAUNDERING

The definition of money laundering should be informed by what exactly one is trying to measure and, in the case of the UK government and law enforcement agencies, to counteract. The definition used by policymakers or scholars may or may not be the same as that used in criminal law.

In the UK, money laundering is defined for the purposes of criminal law under the Proceeds of Crime Act 2002 (POCA). For instance, Section 327 states that ‘[a] person commits an offence if he … conceals criminal property; … converts criminal property; … transfers criminal property’. Given the breadth of these terms, essentially any action concerning criminal property can amount to money laundering. Furthermore, ‘criminal property’ is defined by reference to any offence. This includes, for instance, the proceeds of tax crimes or of conduct that lawfully took place overseas but would be criminal and punishable by a maximum term in excess of 12 months’ imprisonment had it occurred in the UK.

However, policymakers may be interested in a more specific range of activities, such as using legitimate UK businesses to lend a veneer of legitimacy to criminal proceeds or investing criminal proceeds via the UK financial system. They may also be more interested in the proceeds of some crimes than of others (for example, tax crimes). Moreover, in order to be

3. Including the Cabinet Office, the Financial Conduct Authority, Her Majesty’s Revenue and Customs, Her Majesty’s Treasury, and the Home Office.
4. Including the City of London Police, Derbyshire Police, the National Crime Agency, Police Service of Northern Ireland, Police Scotland, and the Serious Fraud Office.
5. Including the London School of Economics Northumbria University, Transcrime – Università Cattolica del Sacro Cuore (Italy), the University of Cambridge, and the University of Portsmouth.
6. Including the Solicitors Regulation Authority (SRA) and UK Finance.
8. POCA, Section 327.
9. POCA, Section 340(2) and 340(3).
comprehensive and relevant, measurements of money laundering need to cover the proceeds of crime that has not been detected and prosecuted.

The consensus among the RUSI workshop participants was that, for measurement purposes, money laundering in the UK should be defined in line with POCA 2002 and cover the proceeds of any crime used in any manner. Therefore, all criminal proceeds generated in the UK should be presumed to be laundered.\(^\text{11}\) This does not prejudice the ability of policymakers and law enforcement agencies to prioritise counteracting money laundering carried out in a specific manner or related to specific predicate offences, or the possibility that some types of money laundering can be better measured than others.

**EXISTING UK GOVERNMENT ASSESSMENTS**

In the 2018 *Serious and Organised Crime Strategy*, the UK government recognises that, by virtue of the UK’s role as a global financial centre, ‘[t]here is a realistic possibility that the scale of money laundering impacting the UK annually is in the tens of billions of pounds’.\(^\text{12}\) The same year’s National Strategic Assessment for Serious and Organised Crime from the National Crime Agency noted there was ‘no reliable estimate’ but put the possible amount at ‘hundreds of billions of pounds’.\(^\text{13}\) *National Risk Assessment of Money Laundering and Terrorist Financing 2017* does not attempt to estimate the problem, but notes that ‘as a global financial centre the UK is particularly vulnerable to money laundering threats overseas’.\(^\text{14}\)

**TYPES OF MONEY LAUNDERING**

For measurement purposes, three types of money laundering can be distinguished:

- Laundering of the proceeds of UK crime.
- Laundering of the proceeds of overseas crime invested in the UK.
- Laundering of the proceeds of overseas crime via the use of UK business infrastructure.

---

\(^\text{11}\) This differs from the approach taken in some studies, which use more restrictive definitions of money laundering and assume that only some part of criminal proceeds will be ‘laundered’. See, for example, Eurostat, *Handbook on the Compilation of Statistics on Illegal Economic Activities in National Accounts and Balance of Payments* (2018) pp. 98–99.


LAUNDERING OF THE PROCEEDS OF UK CRIME

The laundering of criminal proceeds generated in the UK is conceptually the easiest type of money laundering to measure. Nevertheless, two methodological challenges need to be addressed:

1. **Double-counting.** Since every transaction involving criminal property constitutes money laundering, criminal property can be ‘laundered’ more than once. If all such transactions are aggregated, the amount of money laundering in the UK will far exceed the amount of criminal proceeds in the UK. For instance, if four professional money launderers help a drug dealer launder £1,000 and each of these individuals (four money launderers and the drug trafficker) is convicted of money laundering, the money-laundering figure could be recorded at £5,000, which gives a misleading impression of the actual figure involved. On the other hand, only recording £1,000 would not reflect the activities of the four professional money launderers. One workshop participant suggested addressing this difficulty by distinguishing between money-laundering activities that generate new criminal proceeds and those that only involve moving or investing existing criminal proceeds. For instance, if the four money launderers receive a total of £200 in commission for laundering £1,000, that £200 would be included in the overall money-laundering figure. In contrast, the drug dealer moving money between various bank accounts that they control would not affect the money-laundering figure.

2. **Estimating the proceeds of predicate crimes.** The current state of knowledge about the proceeds of various criminal activities that give rise to proceeds (‘predicate crimes’) in the UK is variable. For instance, as will be discussed later, there are reasonably reliable assessments of the income from drug trafficking and arms trafficking in the UK. Detailed estimates exist for fraud, but their validity is more often contested. Relatively little information exists on the monetary scale of corruption in the UK. As a result, measuring money laundering in the UK would involve breaking the ‘money-laundering’ figure into specific predicate crimes and identifying best available assessments of each. Despite the limitations inherent in such measurements, they can establish the lower bounds of the scale of money laundering in the UK, which are as reliable as the underlying data on predicate crimes.

---

15. The overall money-laundering figure would therefore be £1,200 (£1,000+£200). This is so regardless of whether the £200 that the drug dealer pays in commission to the four money launderers reduces his or her profit from £1,000 to £800. Subject to some nuances, ‘criminal property’ typically includes gross proceeds of any unlawful activity and not only its profits. For a helpful overview, see David Winch, ‘Confiscation and Legitimate Businesses’, Bartfields Forensic Accountants, 1 March 2015, [http://www.accountingevidence.com/blog/2015/03/confiscation-legitimate-business/](http://www.accountingevidence.com/blog/2015/03/confiscation-legitimate-business/), accessed 3 February 2019.
In addition to estimating the overall amount of criminal proceeds generated in the UK, the UK government is likely to benefit from an assessment of how they are used, for example:

- The proportion of criminal proceeds that is used in the UK versus the proportion transferred overseas (and what overseas destinations are most often used).
- The proportion that is transferred/invested via the regulated financial and non-financial sectors or other means, such as trade-based money laundering.\(^\text{16}\)
- The proportion that is invested into legitimate businesses operating in the UK.

**Laundering of the Proceeds of Overseas Crime in the UK**

In contrast to the proceeds of UK crime, the proceeds of overseas crime that are invested in the UK cannot be measured by reference to UK statistics on predicate crimes. There is a dearth of analysis as to how this challenge can be overcome. Workshop participants suggested the following two methods to fill the gap, albeit to a limited extent:

- *Identification of case studies.* One NGO who participated in the workshop is working on identifying UK-incorporated corporate entities that share commonalities (for example, registration addresses) with other corporate entities implicated in known money-laundering cases. Although the existence of such commonalities does not imply that they too are used for money laundering, they arguably pose a higher likelihood of being so used. To a degree, this method could shed light on the amounts involved, but it would not produce a comprehensive

\^16. Transfer of value through trade, for instance by paying more than the goods being traded actually cost.
or precise estimate. Measurement of money laundering would only be a secondary product of its use.

- Analysis of suspicious activity reports (SARs). Some participants suggested examining SARs submitted in relation to potential investment of overseas criminal proceeds in the UK to identify and aggregate amounts involved in relevant activities. As with the use of case studies, such an analysis of SARs would not produce a comprehensive estimate. A major limitation of the SARs database as a dataset is that the filing of a SAR reflects the reporter’s subjective suspicion, which may or may not be justified.

One limitation of these methods is that they do not allow estimating the ‘dark figure’ of money laundering that has not been in any way detected. As discussed below, this is in contrast to the methodology used by some researchers to measure, for instance, fraud.

LAUNDERING OF THE PROCEEDS OF OVERSEAS CRIME VIA THE USE OF UK BUSINESS INFRASTRUCTURE

Money laundering that is only connected to the UK through the misuse of some element of UK business infrastructure, such as services of a UK-based professional adviser or the use of a UK-based company, can be partially measured by analysing case studies and, potentially, SARs. These methods are not suited to identifying the amount of money laundering that goes undetected and can only produce a partial measurement. Given that in such situations both the predicate crime and the economic impact of money laundering, if any, occur overseas, no other methods of measurement were proposed that would produce a more comprehensive assessment.

Furthermore, although such money laundering is likely to be of concern to UK policymakers, it is far from clear whether it can be properly said to take place ‘in’ the UK. This ambiguity is tacitly acknowledged in the UK’s 2018 Serious and Organised Crime Strategy17 and several other government publications, which speak of money laundering ‘impacting’ the UK.18 The uncertainty is exacerbated by the fact that some of the forms of money laundering are only beginning to be comprehensively understood, such as money laundering through UK capital markets.19

---

18. NCA, ‘National Strategic Assessment of Serious and Organised Crime 2018’, p. 38, para. 188.
MEASUREMENT METHODOLOGIES AND DATA SOURCES

MEASUREMENT METHODOLOGIES

Methodological challenges related to using case studies and SARs data were discussed in the previous section. This section focuses on measurement methodologies and data sources that can be used to assess the proceeds of predicate crimes.

- **Drugs.** In 2013, the Home Office estimated the UK drugs market at £3.7 billion, based on the Arrestee Survey and the Offending, Crime and Justice Survey, which were used to estimate demand for eight types of illicit drugs in the UK. The value of the UK drugs market was determined based on the demand and known drug prices. Although the Home Office’s 2013 report did not estimate the UK arms-trafficking market due to the lack of scaleable data, one participant suggested that a similar assessment exercise could be conducted based on demand and known street prices.

- **Fraud.** According to one workshop participant, measurement of fraud is typically based on experience surveys (which record the respondent’s first-hand experience) and perception surveys (which record the respondent’s opinion on the issue). In particular, the influential annual report published by the Association of Certified Fraud Examiners in the US relies on both these types of surveys. According to the same participant, one of the difficulties in estimating the scale of fraud is avoiding double-counting, which results from the fact that the same crime can be reflected as more than one type of fraud in the statistics used by researchers. In the UK, the UK Fraud Costs Measurement Committee at the University of Portsmouth has assessed the amount of fraud per annum by estimating a proportion of funds likely lost to fraud and applying it to various categories of public and private expenditure.

---


While these assessments also involve assumptions and inherent imprecisions, they are nonetheless more reliable than existing measurements of money laundering that are not based on measuring predicate offences. Further work is needed to explore the extent to which methodologies used to estimate the scale of drug trafficking and fraud could be applied, with appropriate adjustments, to the measurement of other types of illicit trafficking and economic crime respectively. If they are subsequently used as components for measuring the scale of money laundering in the UK, it is essential to bear in mind the methodological limitations of those underlying estimates.

DATA SOURCES

The availability of complete and reliable datasets is vital to producing accurate estimates of criminal proceeds. Improvements in two areas should be considered:

- **Collection of data.** At present, information on criminal proceeds that emerges during criminal investigations or court cases is not always recorded and stored so as to be available to other law enforcement agencies and UK government bodies in the future. In particular, the 2018 evaluation of the UK by the Financial Action Task Force, while positive in general, noted that the UK does not collect consistent nationwide statistics on money-laundering investigations.\(^{23}\) Consideration should be given to opportunities for improving data-collection practices and ensuring that maximum value is extracted from the information uncovered during investigations and trials.

- **Sharing of data.** Subject to appropriate safeguards, consideration should be given to sharing the data with academic or private sector experts who may contribute towards estimating the scale of criminal proceeds. For instance, some information on fraud is currently being shared by various public and private sector organisations\(^ {24}\) to improve the detection of fraud, including by use of predictive analytics. These initiatives may be instructive as a precedent for information sharing with a view to obtaining maximum effect from analysing the data currently held by the UK government.

---


CONCLUSION

It is unlikely that the UK government or researchers will be able to produce a comprehensive estimate of money laundering in the UK, let alone money laundering that takes place overseas but relies on the use of UK business infrastructure, such as UK companies. However, by measuring the measurable – rather than lamenting the immeasurability of the immeasurable – the lower bounds of the scale of money laundering in the UK can be established.

The approaches to measuring money laundering suggested at the workshop are summarised in Table 1.

Table 1: Possible Methods of Measuring the Scale of Money Laundering

<table>
<thead>
<tr>
<th>Types of money laundering</th>
<th>Measurement methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Laundering of the proceeds of UK crime</td>
<td>• Estimating and aggregating the proceeds of predicate crimes in the UK</td>
</tr>
<tr>
<td>• Laundering of the proceeds of overseas crime in the UK</td>
<td>• Analysing case studies to estimate the amounts involved</td>
</tr>
<tr>
<td>• Laundering of the proceeds of overseas crime via the use of UK business infrastructure</td>
<td>• Analysing SARs data to estimate the amounts involved</td>
</tr>
</tbody>
</table>

Each of these methods has its limitations. In particular, the aggregation of proceeds of predicate crimes is only as good as the data on those proceeds, which will vary depending on the type of the predicate crime. The identification of case studies and analysis of SARs data are based on incomplete and not fully reliable datasets of cases that have already been uncovered in one way or another.

To improve the quality of underlying assessments of criminal proceeds from predicate crimes, the UK government and UK law enforcement agencies should consider re-evaluating their data-collection practices to ensure that information on criminal proceeds gathered during criminal investigations and trials is recorded and remains accessible to UK government stakeholders and, potentially, to outside researchers, subject to adequate safeguards.

ABOUT THE AUTHORS

Anton Moiseienko is a Research Analyst at RUSI’s Centre for Financial Crime and Security Studies. His research covers a range of financial crime issues, including corruption and financial integrity in developing countries, global responses to terrorist financing, and the intersection between cybercrime and money laundering. Anton holds a PhD in law from Queen Mary University of London.

Tom Keatinge is the Director of the Centre for Financial Crime and Security Studies at RUSI.
About RUSI

The Royal United Services Institute (RUSI) is the world’s oldest and the UK’s leading defence and security think tank. Its mission is to inform, influence and enhance public debate on a safer and more stable world. RUSI is a research-led institute, producing independent, practical and innovative analysis to address today’s complex challenges.

Since its foundation in 1831, RUSI has relied on its members to support its activities. Together with revenue from research, publications and conferences, RUSI has sustained its political independence for 188 years.

The views expressed in this publication are those of the authors, and do not reflect the views of RUSI or any other institution.

Published in 2019 by the Royal United Services Institute for Defence and Security Studies.

This work is licensed under a Creative Commons Attribution – Non-Commercial – No-Derivatives 4.0 International Licence. For more information, see <http://creativecommons.org/licenses/by-nc-nd/4.0/>.