Amber ALERT

Bribery & Corruption Risks to UK Independent Schools: Case Studies and Red Flags

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Reference: **0581-NECC**

This Amber Alert is issued by the United Kingdom's National Crime Agency (NCA), on behalf of the National Economic Crime Centre (NECC), in conjunction with law enforcement and financial sector partners as part of the Joint Money Laundering Intelligence Taskforce (JMLIT). This alert has also been issued with the support of the Home Office, the Independent Schools Council, the Independent Schools Bursars Association and the Office of Financial Sanctions Implementation, part of HM Treasury.

This alert is devised with the aim of promoting awareness and encouraging preventative action. We recommend you use this Alert to complement existing knowledge and support on-going improvements to your business processes and procedures.

Overview

The purpose of the Alert is to review the methods through which the proceeds of bribery and corruption may be placed into the independent school sector[1], including through the circumvention of financial sanctions regulations and to highlight red flags which may help identify this type of activity.

This Alert is primarily aimed at assisting the following:

- banks that provide financial services to the UK independent school sector and seek to ensure their products and services are not used to launder the proceeds of crime;
- other supporting professions providing audit, legal and accountancy services, which may be best placed to identify activities of concern and proceeds of corruption; and
- the independent school sector.

What We Would Like You to Do

The National Crime Agency (NCA) is a national law-enforcement agency which leads the UK's fight to cut serious and organised crime. The NCA Alerts process is the way in which we provide information to non-law enforcement bodies including the private sector to combat and disrupt serious crime. To help us to improve this service, we would welcome any feedback you have on both the Alert itself and the information provided to you. Please email all feedback to alerts@nca.gov.uk and include the reference **0581-NECC** in the subject line.

If you identify activity, which may be indicative of the activity detailed in this report, and your business falls under the regulated sector, you may wish to make a Suspicious Activity Report (SAR)[2]. If you decide to make a report in this way you should adopt the usual mechanism for doing so, and it will help our analysis if you would include **XXJMLXX** within the text and the reference **0581-NECC** for this alert.

The NCA would also welcome any information identified as a result of this alert which does not constitute a SAR. Please email all such information to jmlit@nca.gov.uk. Any information received in this way will be treated in confidence and will be handled in line with the data protection principles.

[1] The independent schools sector includes all UK fee-charging schools including state boarding schools.

[2] https://nationalcrimeagency.gov.uk/what-we-do/crime-threats/money-laundering-and-illicit-finance/suspicious -activity-reports

To report any suspected breaches of financial sanctions or to apply for a licence, you should refer to OFSI's website[3] or email ofsi@hmtreasury.gov.uk. Furthermore, if you are concerned about any of the issues raised in this document, please engage with your member association for supplementary support.

Bribery & Corruption Risks to UK Independent Schools: Case Studies and Red Flags

[3] http://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation

Introduction

A number of money laundering[4] schemes known as 'laundromats' have been identified in open source reporting and have highlighted examples of independent schools being used as a destination for funds linked to bribery and corruption. This Alert focusses on UK-based independent schools, providing information on the bribery and corruption risks that independent schools may be exposed to in the UK. Additionally, through review of anonymised case studies, this alert details a number of red flags which may help identify higher risk transactions through independent school accounts.

The examples provided relate to bribery offences as per the UK Bribery Act 2010, as well as suspected offences under the Proceeds of Crime Act 2002 of laundering the proceeds of corruption through independent schools.

Areas of Risk

Third Party Payment of Fees

In the money laundering scheme known as the 'Azerbaijani Laundromat,' funds are reported to have passed through several companies before being used to pay fees for independent schools in the UK.[5] Due to this laundering method, the school in question would not have immediately known that there was any cause for concern around the ultimate source of these funds. Therefore, understanding payment sources and knowing parents and customers is important.

Whilst individual payments may not have appeared suspicious, they are indicative of the wider risks around 'open account abuse', a known trade-based money laundering typology (OATBML). OATBML is described in more detail in previous JMLIT Alert reference 0548-ECC, published October 2018) which identified the following red flags for financial institutions to assist in identifying this type of abuse:

- Unexpected payments from customers or agents (UK or non-UK), or an account not known to relate to that customer or agent, to pay for day school or boarding school fees.

[4] The Financial Action Task Force as the processing of 'criminal proceeds to disguise their criminal origin'. https://fatf-gafi.org/faq/moneylaundering

[5] https://www.theguardian.com/world/2017/sep/04/uk-at-centre-of-secret-3bn-azerbaijani-money-laundering-and-lobbying-scheme (Accessed 17.09.20)

- Unexpected third party payments from different jurisdictions to where the entity is incorporated, unrelated industries, secrecy jurisdictions, shell companies, money service businesses or foreign exchange brokers.
- Cash deposits paid directly into the supplier/ exporter accounts, often in multiples to make up a larger value due on an invoice, rather than as a single large deposit.
- Inability of the customer to provide sufficient justification when questioned on anomalous payments.

In relation to the specific risks to independent schools, third party payments received in settlement of invoices may be considered a red flag, and therefore schools should consider further enquiries in order to to satisfy themselves of the legitimacy of the payments. Through an enhanced due diligence (EDD) process the rationale for the transaction can be better understood for example, the school fees may be settled by the parents' employer. The source of the funds should be considered along with risk factors such as adverse media, the use of opaque structures, formation in high risk and /or low transparency jurisdictions, and/or the use of shell companies.

Wider anti-money laundering controls, such as refusing to accept large cash payments may also help to reduce the of risk of accepting the proceeds of bribery and corruption. Cash may be used as a means of obscuring the true source of the funds and hence poses an increased risk. By seeking electronic payments, there will be an improved audit trail of the source of the funds.

Red Flag

- Third party payments received in settlement of school invoices.

Donations for Places

Access to independent schools is limited not only by a fee, but also by a minimum level of education attainment. Where these educational attainment standards cannot be met, there is a risk that bribery may be used to gain access to these places. Independent school places may also be sought as a means of 'reputation laundering'. This is where children are placed in high-profile independent schools as a way of developing credibility and improving the reputation of the family.

Where donations are accepted, risks around bribery should be considered in line with the UK Bribery Act 2010. In many cases the school will also be listed as a charity, and in these cases, guidance around donations, as set by the relevant charity regulator should also be considered. The Compliance Toolkit (published by the Charity Commission for England & Wales), chapter 3 (G)[6] provides an overview of money laundering risks for charities, while chapter 2 details 'know your donor' requirements and provides a toolkit to aid in the assessment of donations.[7]

<u>Red Flag</u>

- Unexpected interest in specific student applications from members of staff, or requests to 'circumvent' normal application requirements.

Introducers and Middle Men

The Joint Money Laundering Steering Group Guidance to financial institutions invites firms to consider the channel through which a customer is engaged. In particular, non-face-to-face and introducer led relationships are flagged as potentially higher risk scenarios.[8]

Some schools will attend events overseas and/or meet with agents who may direct pupils from particular jurisdictions to their schools. Some of these jurisdictions may present greater illicit finance risks.[9]

Where independent schools use third parties to identify new students, or to collate any part of the application, the risks associated with this process include:

- Facilitation payments – i.e. the introducer requiring additional or undisclosed fees to execute the agreed process (beyond contractual commission fees).
- Accepting bribes – i.e. accepting payment to progress an application that would not otherwise progress through the standard application process.

The school should consider introducing policies and procedures to manage this risk, and the financial institution providing banking services may seek to understand this network and the supporting processes as part of their due diligence process. This may then enable the financial institution to spot unusual transactions to third parties.

All boarding schools require the appointment of a local guardian for each student who can be contacted in the event of medical emergencies, disciplinary issues and

[6] https://www.gov.uk/government/collections/protecting-charities-from-harm-compliance-toolkit#chapter-3

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/550694/Tool_6.pdf

[8] Joint Money Laundering Steering Group, Prevention of money laundering / combatting terrorist financing, Guidance Part 1, 2017 Revised Version (Page 66)

[9] http://www.fatf-gafi.org/countries/#high-risk

other immediate welfare matters. In some cases the agents will provide suitable candidates to act as guardians. In addition, fees may be paid via the agents or guardians. This adds additional complexity to understanding the relationship, and the source of funds being used to settle the fees and additional costs.

'Non-face-to-face' Parent

Where the school has an entirely non-face-to-face relationship with the parent of the child, there is an increased risk around the source of funds. Taken together with other risk factors, this may be an indicator that independent schools should consider conducting further enquiries to satisfy themselves of the legitimacy of the source of the payments to be completed in order to discern whether the parent can be reasonably expected to have a legitimate source of funds to cover the school fees.

This risk factor needs to be incorporated into a school's wider risk-based approach to determine whether enhanced due diligence should be applied to better understand the source of funds being used to support the child.

For financial institutions, transaction activity showing multiple payments from a single source may indicate an introducer paying for a number of children at the same institution. Where the introducer is paying for the fees then consideration should be given as to why the fees are not coming directly to the school from the parent.

Jurisdictions of Risk

The Independent Schools Council (ISC) census and annual report 2020 provides data relating to the non-British children attending UK independent schools.[10] The data shows that the majority of students come from outside of the European Economic Area, and that many come from jurisdictions considered as higher risk in relation to money laundering[11].

There are a number of open source resources which financial institutions may share with their independent school clients to aid the country risk assessment process such as:

- EU list of non-cooperative jurisdictions[12]

[10] https://www.isc.co.uk/research/annual-census/

[11] http://www.fatf-gafi.org/countries/#high-risk

[12] https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/

- Financial Secrecy Index[13]
- Financial Action Task Force list of high-risk and other monitored jurisdictions
- ISC and ISBA members have access to specific advice.

Whilst funds from these countries will not always be suspicious, when combined with other factors (such as attempting to obscure the source of funds), this may be indicative of suspicious behaviour which may require additional due-diligence.

In addition to the jurisdiction of risk consideration, funds coming to the school with regards to a child's fees may also be flagged as higher risk if the funds are not coming from either a UK account, or from the same jurisdiction the child is a national of. This could indicate the funds have been routed to ensure the source of the funds is not readily traceable. 52.3% of non-British children in UK independent schools have parents that are non-UK based, which indicates that these fees can reasonably be expected to come from non-UK bank accounts, though would normally be coming from the same jurisdiction that the parent is a national of. Please note that just because a payment is made from the same jurisdiction as the customer, this does not necessarily mean the payment is safe.

<u>Red Flags</u>

- The student comes from a jurisdiction considered of higher risk for money laundering.
- Funds coming to the school to pay for a child's fees, where the funds are not coming from either a UK account, or from the same jurisdiction the child is a national of.

Franchise Risk

Several boarding schools and some high performing day schools have established "associated" schools overseas. These are understood to be typically structured as a franchise relationship with the UK school providing intellectual property, expertise, and sourcing teaching staff. These "associated" schools reflect a growing trend for UK independent schools to develop new income streams to help support bursaries in the UK, which in turn helps to maintain their charity status.

Depending on the ownership model, and the flow of funds back into the UK school, there are risks around proceeds of crime. These include the proceeds of bribery and corruption as well as proceeds of other criminality. This risk is increased where the

[13] https://www.financialsecrecyindex.com/

franchise schools are in higher risk jurisdictions, or jurisdictions where information around source of wealth and source of funds is more opaque.

Where franchises are established in countries where there is high regard for quality education and a culture where corruption is more prolific, there is an increased risk that the franchise will see the typologies listed in this alert. Where fees and profits are repatriated to the UK school (the franchisor), the UK franchisor will need to have confidence in their franchisees' systems and controls, in order to have comfort around the source of these funds, and consequently the protection of the franchisor's brand.

Best practice guidance around bribery and corruption should be considered when establishing the governance model for these franchises. This will address both the corporate offence of failing to prevent bribery, and will also establish a control environment which will aid detection of many of the bribery types discussed in this paper and the case studies. Examples of best practice guidance are listed below:

- Transparency International 'adequate procedures guide'[14]
- Ministry of Justice Guidance[15]
- SFO guidance on self-reporting[16]

For financial institutions providing services to independent schools who are looking to expand internationally through franchising, the exchange of capital outwards and repatriation of profits may trigger a due diligence review. The review provides an opportunity to understand the model, controls and expected funds flow so they can be considered in ongoing monitoring. The change in business activity might also feed into the client risk assessment, in turn determining the ongoing due diligence model to be applied.

Fundraising & Finance

In order to demonstrate their charitable status, schools have to show public benefit, which often means providing bursaries to those who would otherwise be unable to attend for financial reasons. Additionally, these independent schools may share resources with local state schools. All of these outlays require funding which might not be entirely covered through fee income.

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[14] https://www.transparency.org.uk/our-work/business-integrity/bribery-act/adequate-procedures-guidance/

[15] https://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf

[16] https://www.sfo.gov.uk/publications/guidance-policy-and-protocols/corporate-self-reporting/

Some independent schools may have a team of development or foundation or fundraising staff as well as a parents' association raising money for projects. Larger schools can generate income through charging for access to-and renting out-facilities. Many schools will also rent out their facilities in the summer holidays for sports camps, summer schools and related activity.

Some of the major public schools have long-established foundations that provide funds to the school, which may cover the costs of bursaries and scholarships. Additionally, development or foundation teams will target the families of pupils and alumni to raise money. There may be restricted funds for a particular development within the school, e.g. a science lab, or may be for specific bursaries or scholarships. There are likely to be a range of options for donations to the fund depending on its nature. For a building project, donations will be invited at various levels – from payments for a paving stone or brick (sometimes engraved) to sponsorship of a room or a substantial part of the building. Those providing the largest donations are granted naming rights for the room or even the building. Donors will come from both the UK and overseas. Fundraising of this nature is likely to have a separate bank account to avoid mixing funds.

Fund flows relating to bursaries and scholarships may also be complex. Sometimes, development activities will be conducted under a separate legal entity and have a separate bank account to manage funds raised. Large donations may have restrictions e.g. some may provide money for scholarships or bursaries to children of clergymen or provide a scholarship for those particularly talented in music or sport. These are generally managed separately and may be held in a distinct trust or other arrangement and therefore may have a separate bank account or even a separate charity.

Parents' associations will raise money from activities such as school fetes. The funds raised from these activities are also likely to have a specific bank account. The money raised is spent on smaller items for the school such as new library books or sports equipment or similar.

Where donations are being sought, know your donor (KYD) requirements apply as detailed by the Charity Commission for England and Wales[17]. The Charity Commission for Northern Ireland and The Office of the Scottish Charity Regulator also provides similar guidance. This KYD may be expedited by having already understood who the parents of students are and hence whether accepting further charitable donations from them poses any additional risk to the school and its charity status. The number of funding sources and routes discussed here highlights the need for a risk-based approach so that schools are able to continue with 'business as usual' while conducting appropriate KYD.

[17]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/677252/Chapter2new.pdf

For financial institutions providing services to independent schools, understanding the purpose of each account held and therefore the 'normal' operating activity of the accounts may help to identify red flags more readily and also discount false positives effectively.

Culture

During the collation of case studies, JMLIT contributors were able to discuss money laundering concerns with some relevant independent schools. These discussions identified some cases where there were instances of teachers having financial crime concerns relating to a student, but these concerns failed to reach the bursar. This highlights the importance of having a culture of transparency and effective reporting lines so that the information that a teacher has can be combined with the transactional intelligence the bursar has access to.

The bursar should be aware of locally available guidance around money laundering and the policies and procedures it would be appropriate to have in place. This might include the Independent Schools' Bursars Association (ISBA) guidance.[18] However, policies and procedures rely on communication and education to be effective and result in compliance.

Equally, cases were noted where activity which aligns to some of the red flags was later deemed to not be suspicious. For example, in one instance a child's fees had been paid up front but were then largely returned to source. The financial institution was able to determine from the school that the rationale for the upfront payment and then refund was because the child to whom the fees related had since been excluded. This case highlights the need to apply common sense and a risk-based approach.

Schooling on Offer: Day Schools vs. Boarding Schools

The local catchment for day schools means risk tends to be restricted to UK-based families/fee payers. Equally some boarders, especially flexi-boarders, tend to live locally. Accordingly, the risk that an independent day school will have pupils whose fees are paid from questionable sources is usually, but not exclusively, restricted to those whose families are already UK-based. However, high-profile schools may still expect to see day pupils from non-UK nationals with business connections to the UK. Fees are likely to be paid indirectly (via family office structures from trusts etc.) but will come from sources originating from the parents. There are some cases

[18] https://www.theisba.org.uk/news/2019/isba-publishes-revised-anti-money-laundering-guidance.aspx

where children stay with family members or appointed guardians and attend day schools.

The school should understand their usual market and then identify exceptions to that which may warrant further due diligence. Equally the financial institution offering services will need to understand the market in which their client operates and / or seeks to operate, to enable them to identify red flags.

Financial sanctions

Many of the techniques and red flags identified for bribery and corruption can apply to those seeking to circumvent or breach financial sanctions in order to obtain education for their children. There is a risk that independent schools who do not obtain an appropriate licence before handling funds associated to sanctioned individuals, could be found in breach of the financial sanctions regulations.

Breaches of financial sanctions are criminal offences and can result in a fine or a prison sentence upon conviction. Breaches can also be punishable by way of civil monetary penalties with fines of up to 50% of the total value of the breach or £1 Million (whichever is the greater). The Office for Financial Sanctions Implementation (OFSI) is responsible for monitoring compliance of such sanctions, and will determine whether to impose a monetary penalty or refer the matter for criminal investigation and prosecution by the National Crime Agency

By providing an education and associated activities for the child of a sanctioned individual, the school in question could be providing funds or economic resources directly or indirectly to the designated person and/or entity. This may be in breach of financial sanctions regulations.

Individuals and organisations subject to financial sanctions are published by HM Treasury through the Office of Financial Sanctions Implementation (OFSI) on the consolidated lists of asset freeze targets[19].

The consolidated lists help businesses and individuals comply with financial sanctions and includes all designated persons subject to financial sanctions under EU, UN and UK legislation.

More information and guidance on complying with financial sanctions, along with the consolidated lists of asset freeze targets can be found at https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation

[19] https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets/consolidated-list-of-targets

Case Studies

In the development of this alert members of the JMLIT Bribery & Corruption Expert Working Group discussed a number of anonymised case studies collected from its membership. This has been used to inform the content of this Alert and is shared here to provide insights into the various risks around the proceeds of bribery and corruption for independent schools. Each case details the JMLIT members' insights into how the activity may be identified either within a financial institution or by the school itself.

Case Study 1: Payment of Pocket Money

A UK company, 'Company A Ltd', provides vehicles and support services to a state-owned enterprise in a high risk jurisdiction ('Company Z Ltd')

Alongside several suspected corruption matters, a regular monthly standing order of £1200 was identified, from Company A Ltd to a man identified as the son of a former senior executive of Company Z Ltd who was also a high ranking Politically Exposed Person (PEP).

Two smaller monthly standing orders of £300 per month were also traced. These were sent from Company A Ltd's account to the accounts of two independent schools referencing two named children at the schools, alongside the term 'pocket money.' The recipients of these funds shared a surname with the CEO of Company Z Ltd.

It appeared that the funds were being paid by Company A Ltd via the two standing orders to the relations of a PEP. This could possibly have been to gain or maintain contracts. The payments appear to have been deliberately not paid directly to the primary PEP and therefore were less likely to be identified as suspicious even if the PEP was subjected to enhanced due diligence.

Further, the payments into the independent schools were unlikely to cause immediate concern as they were paid from Company A Ltd's UK accounts, and were comparatively small sums of money. However, had the schools been aware of the parent's position in a high risk jurisdiction, they may have then been more alert to the risk of accepting third party payments in relation to their children.

Case Study 2: Payment of School Fees

Accounts linked to an Iranian national, Mr C, and an offshore firm, D Incorporated, were reviewed in light of broader concerns around corruption at senior levels of government in a Central Asian country. It was suspected that Mr C was acting as a front man for senior members of the regime and their immediate families.

Mr C had reported his source of wealth as derived from his 'consulting services.' This included hundreds of millions of dollars from a wide array of international companies (a large proportion were Chinese or Russian) and all of which had major infrastructure projects in the Central Asian country and Iran.

It was identified that Mr C had former business links to an Iranian PEP (Mr Y) involved in state-owned entities in the energy/ nuclear sector. Mr Y had also been a director of one of Mr C's companies in the UK.

During a review of the accounts of a relative of Mr C, it was identified that they were funded by the same offshore companies that were funding Mr C's business accounts. The offshore companies were suspected based upon observed funds flows to be engaged in the laundering of proceeds of corruption. Payments from the accounts of Mr C's relative were made to several independent schools in central London for sums consistent with school fees, but referencing children who shared Mr Y's surname.

It appeared that Mr C may have benefited from corruption in the Central Asian country, and that through accounts held by his family members, was also paying bribes to a PEP in Iran. It was assumed that this was to ensure access to state-owned contracts as part of his 'consulting services'.

The payments to the schools were from UK accounts and the sums were in keeping with 'expected' activity as they were for agreed fees. The indicators of risk would only have been apparent if the school had been aware that the parent was a PEP and therefore that there were associated risks of accepting third party payments with regards to his children.

Red Flag

- Payments that do not come directly from parents.

Case Study 3: Cash Deposits

A UK-based retail customer, of Nigerian origin, was associated to a number of suspicious cash deposits and third party activities. Funds were used to cover general living expenses, credit card repayments and £16k on school fees, to both an independent school and a university.

The customer provided conflicting information during the due diligence process as to the source of the funds. They claimed that the third-party funds came from their business in Nigeria, and that the cash they received was from a friend to cover direct debit payments while they were out of the UK. They also stated separately that the cash was a 'travel allowance' provided by the Nigerian government, but it was paid in cash and deposited into her account by a friend.

There was no information in the public domain about the customer to corroborate information provided by the customer. While outgoing payments appeared to confirm the customer's claim that the funds chiefly covered tuition fees and general living expenses, there were also payments to a Nigerian individual who the customer claimed was their lawyer. The customer was unwilling to provide any further explanation for the reason for the payments.

The lack of red flags would have made this example hard to detect by the school, instead the bank would have needed to have identified the cash deposits as a red flag, with the supporting outgoing payments to schools as a further indicator of risk in this case.

In recognition of the risks associated with PEPs, some countries place legal restrictions on individuals in certain prominent public functions, which prevent them from holding assets outside their home country (e.g. overseas bank accounts). Among those countries are Nigeria, Russia, Bangladesh, Tanzania and Kenya. These controls may help to inform a risk-based approach around students and source countries, and the level of due diligence that would be appropriate around the parent and the ultimate source of the funds for school fees.

Red Flags

- Cash deposits into accounts funding outgoing payments to schools.
- Cash deposits paid directly into independent schools' accounts for fees, obscuring the source of funds.

Case Study 4: Upfront Payment of Fees

An account review on a retail personal account held by a Chinese international student was instigated due to large values of transactions between China and Hong Kong. Bank staff had spoken to the customer, who claimed that they moved money between China and Hong Kong through the UK because it was easier to do it that way.

The customer received approximately £500k into their account from third parties over a 12-month period. The credits entering the customer's account were in small amounts over different dates as opposed to larger payments. A total of over £300,000 was sent to an independent school which was believed to cover school fees. The remaining funds were moved to savings accounts and then transferred back into the account to make payments of a further £400,000, which were then sent back to Hong Kong to an account in the customer's own name.

There appeared to be no plausible explanation for this activity and it was suspected that the customer was using the account to launder money on behalf of unknown third parties.

Red Flags

- Account being funded by a number of un-associated third parties, with the income exceeding the profile of the customer.
- Transactions to schools of a size that may indicate that multiple years' fees are being paid up front. This is not necessarily unusual or wrong, but combined with other red flags may be a cause for concern.

Case Study 5: Payments Out of the UK

Cases were identified by a financial institution which acts as a custodian for assets on behalf of investment and asset managers, and facilitates back office services such as payments.

Clients that have their assets held by a custodian range from small retail-focused firms to large institutional managers. Payments for independent schools and educational institutions predominately relate to smaller retail-focused investment managers whose underlying client base is likely to be ultra / high net worth individuals, PEPs, and offshore vehicles such as special purpose vehicles (SPVs) and trusts. Cases have been identified by the financial institution where fees are being paid from the UK to independent schools, including schools in the UK, the US, South Africa, and Singapore.

Custody accounts should only facilitate purchase of assets and distributions to underlying clients of the investment manager. The institution providing custody has no sight of the underlying client, where requests for information are made, the financial institution has to rely on any responses from the investment / asset manager.

Use of custody accounts for school payments is out of keeping with the purpose of the account, and appears to be used to add an additional layer of opaqueness which may reduce the risk of detection. It also raises concerns that individuals are shifting towards using accounts with their investment managers in order to make such school payments and avoid the scrutiny of large banking institutions.

Red Flags

- Account activity which is not aligned to the purpose of the account such as the use of custody accounts for school payments.

- Where the client cannot, or will not, provide further detail around the underlying customer.

Case Study 6: Independent School Ownership

A PEP was identified as owning a UK independent school along with Chinese nationals through a number of offshore vehicles. The institution almost exclusively markets to high risk jurisdictions including China, Russia, Latvia, and Egypt. Similarly, it offers scholarships to individuals from these jurisdictions.

A bank identified payments into the personal account of the PEP from offshore vehicles banking with foreign institutions. Foreign vehicles (from which these funds derived) had been formed in secrecy jurisdictions, meaning that ownership could not be confirmed, and hence was not possible to understand the ultimate source of the funds, or the rationale for the payments.

The Chinese portion of the ownership structure was identified to be held via a number of layered vehicles, which also caused the ultimate ownership to be untraceable.

Based on the transactional activity, suspicion was formed that the PEP's school was offering scholarships to the UK independent schools as a tool for bribery and corruption in high risk jurisdictions.

Due to local requirements for EDD to be applied to accounts held by PEPs, the initial red flag of suspect payments into the personal account was identified, which then led to an investigation into the source of funds and the ownership structure of the school.

This case highlighted the risks around changes of ownership, as well as the risks around the offering of scholarships. The due diligence process may inform the financial institution of how the school manages these and the controls they have in place, as well as identifying any red flags, such as concentrations of payments to high risk jurisdictions.

Guidance on the process of offering scholarships by independent schools can be found in the 'Compliance Toolkit: Protecting charities from Harm Chapter 3: Fraud and Financial Crime', section M, which covers bribery and corruption.[20]

[20] https://www.gov.uk/government/collections/protecting-charities-from-harm-compliance-toolkit#chapter-3

Case Study 7: Black Market Exchanges

The wife of a PEP closely associated to the former President of a West African country was based in the UK. Customer due diligence documented that she was not employed, which aligned to her known visa restrictions. Despite this, an account she held in the UK saw a turnover of £80,000. This was made up of bank-to-bank transfers from overseas third parties that appeared to be unrelated to the customer.

The funds were then used to pay school fees of approximately £10,000 per annum. The customer, when challenged, claimed funds derived from multiple investments (including rental agreements) in their country of origin. Investigations revealed that the customer had five children based in the UK all of whom were understood to be attending independent schools.

The bank's investigation concluded that the transactional activity appeared to be indicative of black market currency exchanges being utilised to circumvent national foreign exchange controls.

As with other case studies detailed in this Alert, the key red flag was the client's PEP status which in turn triggered the bank to seek EDD to understand the source of funds and the source of wealth, which they were then able to determine was not in keeping with the client's profile.

Red Flags

- Clients classified as PEPs.
- Clients classified as PEPs and also originating from a country that has controls in place around PEPs holding offshore accounts.

Case Study 8: Use of SLPs / Anonymity

Banks and schools reported on a case where a Scottish limited partnership (SLP) was identified to be paying fees to four different independent schools. The collective reviews of the activity identified that the SLP was ultimately owned by a Ukrainian PEP, and the SLP made payments to the schools for 'school fees and accommodation.'

Most of the payments referenced only the invoice number, so transaction screening was not able to identify the party the payments related to. However one payment provided a name for the student, which enabled the PEP to be linked to the payments.

Funds into the SLP account were traced to have come from Latvia, with the ultimate origin believed to be Ukraine. The total amount transferred to independent schools was approximately £35,000.

Open source information identified that the levels of funding were not in keeping with the expected income for the linked PEP, and suspicion was therefore formed that the funds represented the proceeds of crime such as corruption.

The banks involved in the transactions may have been able to identify the suspicious activity based upon the due diligence completed on the SLP account opening to understand the ultimate beneficial owner. Had the SLP been banked offshore, however, then the red flag indicator may have been the payment of funds from a 'non-parent' account from a jurisdiction considered of higher risk for bribery and corruption.

Consolidated List of Red Flags

The following list consolidates those red flags that were highlighted throughout this document:

- Third party payments received in settlement of school invoices.
- Unexpected interest in specific student applications from members of school staff, or requests to 'circumvent' normal application requirements.
- Student comes from a jurisdiction considered of higher risk for money laundering.
- Funds coming to the school to pay for a child's fees where the funds are not coming from either a UK account or from the same jurisdiction as the child's nationality.
- Payments for school fees that do not come directly from parents.
- Cash deposits into accounts funding outgoing payments to schools.
- Cash deposits paid directly into independent schools' accounts for fees, obscuring the source of funds.
- Account being funded by a number of un-associated third parties, with the income exceeding the profile of the customer.
- Transactions to schools of a size that may indicate that multiple years' fees are being paid up front.
- Account activity which is not aligned to the purpose of the account such as the use of custody accounts for school payments.
- Where the client cannot, or will not, provide further detail around the underlying customer.
- Clients classified as PEPs paying school fees.
- Clients classified as PEPs and also originating from a country that has controls in place around PEPs holding offshore accounts.

Disclaimer

While every effort is made to ensure the accuracy of any information or other material contained in or associated with this document, it is provided on the basis that the NCA and its staff, either individually or collectively, accept no responsibility for any loss, damage, cost or expense of whatever kind arising directly or indirectly from or in connection with the use by any person, whomsoever, of any such information or material. Furthermore, the material contained in this document is provided to assist entities with carrying out their know your customer and due diligence obligations, and is not intended to be a substitute for or circumvent these obligations.

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Alert Markings

NCA Alerts are marked either Red or Amber. This is designed to indicate the urgency of the warning. Red may indicate a more immediate or specific threat, whilst those marked Amber will provide more general information that may complement existing knowledge.

NCA Alerts Team

Recognising that the private sector is often the victim of serious organised crime and is engaged in its own efforts to prevent, deter and frustrate criminal activity, the NCA seeks to forge new relationships with business and commerce that will be to our mutual benefit – and to the criminals' cost. By issuing Alerts that warn of criminal dangers and threats, NCA seeks to arm the private sector with information and advice it can use to protect itself and the public. For further information about this NCA Alert, please contact the NCA Alerts team by email alerts@nca.gov.uk or by telephoning 020 7238 3433. For more information about the National Crime Agency go to www.nationalcrimeagency.gov.uk.

Protecting the Public – Providing information back to the NCA

Section 7(1) of the Crime and Courts Act 2013 allows you to disclose information to the NCA, provided the disclosure is made for the purposes of discharging the NCA's functions of combating serious crime or organised crime or gathering and analysing intelligence on other kinds of crime. The disclosure of such information to the NCA will not breach any obligation of confidence you may owe to a third party or any other restrictions (however imposed) on the disclosure of this information. The disclosure of personal information about a living individual by you to the NCA must still comply with the provisions of the Data Protection Act 2018 (DPA). However, you may be satisfied that the disclosure by you of such personal information to the NCA in order to assist the NCA in carrying out its functions may be permitted by Schedule 2, Part 1 of the DPA 2018. This allows a data controller to be exempt (by means of a restriction or adaption) from provisions of the GDPR, if the personal data is processed for the following purposes:

a) the prevention or detection of crime,

b) the apprehension or prosecution of offenders, or

c) the assessment or collection of a tax or duty or an imposition of a similar nature,

to the extent that the application of those provisions of the GDPR would be likely to prejudice any of the matters mentioned in paragraphs (a) to (c).
(DPA 2018, Schedule 2, Part 1).
Any Section 7(1) information should be submitted to alerts@nca.gov.uk.

The NCA's Information Charter is published on our external website at www.nca.gov.uk