**Fee Payments by Cash and Money Laundering**

**Introduction**

This note provides a high-level overview of money laundering offences and how these potentially impact schools. Money laundering is the process by which the proceeds of criminal or illegally obtained money are processed or ‘layered’ to mask their true origin and to create the appearance that they have come from a legal source. Whilst the note focuses on fee payments in cash, schools should also be vigilant in relation to other cash payments, for example donations, or other unusual payments, particularly where these involve complex banking and transfer arrangements.

The purpose of this guidance is to clearly demonstrate that the Independent Schools Council and its affiliated associations embrace the underlying principles of money laundering legislation and are taking reasonable steps to minimise the likelihood of such activities within the sector.

**Background and Definitions**

Money laundering is a term designed to cover several offences. These offences relate to the improper handling of funds that are the proceeds of criminal acts, or terrorist acts, so that they appear to come from a legitimate source. It relates to both the activities of organised crime but also to those who benefit financially from dishonest activities such as receiving stolen goods.

**Money Laundering is described as:**

***“a scheme in which criminals try to disguise the identity, original ownership, and destination of money that they have obtained through criminal conduct. The laundering is done with the intention of making it seem that the proceeds have come from a legitimate source”.***

While money laundering isn't always obvious, the consequences are severe. The National Crime Agency's National Strategic Assessment of Serious and Organised Crime 2018 states that there is a realistic possibility that the scale of money laundering impacting the UK annually is in the hundreds of billions of pounds. Money laundering is not only a crime itself, but also a key enabler of other serious crimes such as modern slavery, drugs trafficking, fraud, corruption, and terrorism.

When exercising vigilance in the area the banks’ view is paraphrased as:

*“We don’t have set limits on cash deposits, but for large or unusual transactions we may ask customers for information on how the cash was obtained and seek proof of this. The Financial Conduct Authority (FCA) requires banks to have "adequate policies and procedures sufficient to counter the risk that they might be used to further financial crime".*

In addition to being alert to unusual or suspicious transactions, banks must "identify and monitor customer relationships". In effect, this is a requirement for banks to "know their customers" and be confident they are not using accounts to receive the proceeds of crime. Schools are encouraged to take a similar approach.

The UK is an attractive destination for Politically Exposed Persons (PEPs – they are defined broadly as any individual who is entrusted with prominent public functions. The full definition can be found in Regulation 35 (12) of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017) seeking to launder the proceeds of corruption. This poses a significant reputational risk to the UK and organisations within the UK.

Corrupt PEPs continue to travel to the UK to evade law enforcement attention in their home country. The UK is appealing to PEPs due to the rule of law, judicial processes and adherence to human rights legislation.

**The Law**

The Proceeds of Crime Act 2002 (POCA), as amended, creates a range of criminal offences arising from dealing with proceeds of crime. The four main offences that may be committed under money laundering legislation are:

* concealing, disguising, converting, transferring, or removing criminal property from anywhere within the UK;
* entering into or becoming concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
* acquiring, using or possessing··criminal property; and
* doing something that might, prejudice an investigation - for example, falsifying or destroying a document.

There are also two 'third party' offences:

* failing to disclose information relating to any of the above money laundering offences; and
* tipping off (informing) someone who is, or who is suspected of being involved in money laundering activities in such a way as to reduce the likelihood of them being investigated or prejudicing an investigation.

These money laundering offences may be committed by an organisation or by individuals working for an organisation.

Money Laundering can take many forms, but in the independent school sector it could involve, but will not be limited to:

* the donation of sums to projects for which an appeal is being run;
* the donation of sums for no obvious reason;
* the payment in advance of fees; and/or
* the requested return of fees paid in advance.

In addition, these activities could also add to a second “laundering” activity where reputations are reviewed and refreshed with injections of illicit wealth into acquisitions (cars and homes particularly) which complement the reputation generated by a family by having their child or children in a prestigious private school.

"Criminal Property'' has a relatively broad definition in money laundering legislation and includes all property of any amount and wherever located. As such, organisations are obliged to take action when money laundering activities are suspected regardless of how small the amount involved. Benefiting from criminal property can work on two levels; an individual benefiting from the proceeds of a crime they have committed themselves, or an individual benefiting from the proceeds of crime crime/dishonest activities perpetrated by someone else.

**Charity Commission Advice**

To satisfy the core elements of due diligence trustees must take reasonable steps to ensure they: ·

* '**identify**' know who you are dealing with;
* ‘**verify**' - where reasonable and if the risks are high, verify identities;

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* **'know what the organisation's or individual's business is**' and can be assured this is appropriate for the charity to be involved with;
* ‘**know what their specific business is with your charity**’ and have confidence that they will deliver what you want them to; and
* ‘**watch out**’ for unusual or suspicious activities, conducts or requests.

Most charities should know, at least in broad terms, where the money they are being given comes from. Trustees should be able to identify and be assured of the provenance of substantial donations. A good, open and transparent relationship between a charity and its donors is essential for building trust and confidence.

Good due diligence will help to:

* Assess any risks to the charity that may arise from accepting a donation or types of donations.
* Ensure that it is appropriate for the charity to accept money from the particular donor.
* Give trustees reasonable assurance that the donation is not from any illegal or inappropriate source.
* Ensure that any conditions that may be attached are appropriate and can be accepted.

**National Crime Agency**

If a school suspects that money laundering may be taking place, it can submit a Suspicious Activity 'Report (SAR) to the National Crime Agency. [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk)

A high-quality SAR can provide crucial intelligence for law enforcement and can help to prevent a wide range of serious and organised crime and terrorist activities. Investigations are often based on multiple SARs, and the report from your school could be the missing piece of the puzzle.

**Child Safety**

The practice of children carrying large sums of money puts these children at risk and should be actively discouraged.  Schools should also note that anyone travelling to this country from outside the EU carrying in excess of 10,000 euros (or more or the equivalent amount in another currency), bankers drafts or cheques must complete a cash declaration form on arrival. If the child does not complete the form, or completes it incorrectly, then the child may be subject to financial penalties.  In addition, if HMRC has any suspicions about the source or purpose of the money then HMRC has the power to seize it upon arrival.

**Money Laundering Red Flags**

**These should not be considered in isolation i.e. one red flag does not indicate money laundering but should be considered as a whole to build a picture of the transaction.**

Generic

* Transactions: are transactions unusual because of their size, frequency or the manner of their execution, in relation to the parent's known business type or source of income?
* Structures: do payments involve complex or illogical arrangements that make it unclear who is making the payment?
* Assets: does it appear that a parent’s (or guardian’s) assets are inconsistent with their known legitimate income?
* Resources: are the payer’s funds made up of a disproportionate amount of private funding, bearer's cheques or cash, in relation to their socio-economic profile?
* Identity: has the parent taken steps to hide their identity, or are they difficult to identify?

Behaviour:

* Is the parent (or guardian) unusually anxious to complete a transaction or are they unable to justify why they need to make a payment quickly?

Political status:

* Is the parent engaged in unusual private business given they hold a prominent public title or function?

Documents:

* Are information or documents being withheld by the parent or their representative, or do they appear falsified?

Geographical Area:

* Are the parents native to, or resident in, a high risk country?

Third party referrals:

* Have you, or other professionals involved been instructed at a distance, asked to act outside of your usual specialty, or offered an unusually high fee?

**Proposed Solutions**

Included below is a policy template for schools to adopt in order to help counter the threat of money laundering. As well as some pragmatic, in-house checks that most member schools should be able to undertake. More technologically sophisticated solutions are available.

To this end, ISBA has recently been in discussions with various firms as below. Each firm can conduct checks, and each offers a slightly different service; different types of school will require different services.

**Flywire** is a tuition fee payment processor and is used by more than 1,800 institutions worldwide and 60 independent schools in the UK.

The Flywire solution offers institutions a secure online payment portal to improve the way tuition fees and related payments from students and parents are collected. Through Flywire, institutions can limit the number of technical integrations required, have visibility over the payment life cycle, and reduce time spent on the reconciliation of payments whilst offering their payers multiple payment options, from credit card and bank transfer to e-wallet options.

This reduces the need or incentive for any payer to risk transporting large amounts of cash across borders for payment at the institution. Payers can be directed to make a payment through Flywire prior to arrival at the institution.

As a payments institution authorised by the Financial Conduct Authority, Flywire is subject to compliance with anti-money laundering and fraud rules and regulations. The company is required to ensure that it has an anti-money laundering compliance programme in place in order to reduce risk, and to include adequate controls to prevent financial crime against its business and clients.

When making refunds to payers, the Flywire solution includes the ability to limit the financial crime risks and fraud risks, offering a managed solution to ensure and verify that the funds are always returned to the originating source.

Flywire contact details: Flywire London, 45 Folgate Street, 4th Floor, London, E1 6GL

Email: tom.jones@flywire.com

[www.flywire.com](http://www.flywire.com)

**Refinitiv** (formerly Thomson Reuters) offers the service World-Check used globally to fight financial crime. World-Check is specifically designed to help organisations adhere to anti-money laundering regulations and the product helps schools identify heightened-risk relationships, prevent the likelihood of accepting proceeds of crime and avoid reputational risk.

The exclusive ISBA pricing for World-Check allows for one licence at £1,359 per annum which will allow for up to 30,000 ad hoc searches a year. There are also additional features of on-going monitoring and batch upload via an Excel add-in available. By running a name through World-Check it will be screened against 100% of Global Sanctions lists as well as Regulatory Enforcement, Law Enforcement lists. It will also check whether that individual/organisation is politically exposed and screen for any adverse media.

Refinitiv contact details: Michael Petersen

T:+44 (0) 20 7542 2038 E:michael.petersen@refinitiv.com

**Redwood Collections**, which represent one in four fee-paying schools, offer a product as part of their wider range of services labelled ParentCheck+.

The Parentcheck+ system gives schools the ability to securely, discreetly and compliantly screen their customers. It simultaneously scans hundreds of worldwide databases maintained by governments and other organisations to check for sanctions, links to money laundering, politically exposed persons and importantly any adverse media.

ParentCheck+ uses a low threshold by design, meaning that records that even tenuously relate to a subject referred, will be included in the screening results. Such detail allows for a fully considered decision to made in this heavily regulated area.

Pricing is largely dependent on three factors: volume of searches, frequency i.e. one-off search, termly or annually and finally if Redwood has an ongoing relationship with the school for its debt collection requirements.

Pricing is competitive and tailored to specific school needs.

Redwood Collections Limited contact details: Airport House, Purley Way, Croydon, Surrey, CR0 0XZ T: 0208 288 3527 E: mrogers@redwoodcollections.com

 **XXXXX School – Anti-Money Laundering Policy [DRAFT]**

Money laundering is the process by which the proceeds of criminal or illegally obtained money are processed or spent to create the appearance that they have come from a legal source. Whilst this policy focuses on fee payments in cash, the School should also be vigilant in relation to other payments, for example donations, or other unusual payments, particularly where these involve complex banking and transfer arrangements.

Money laundering is a term designed to cover several offences. These offences relate to the improper handling of funds that are the proceed of criminal acts, or terrorist acts, so that they appear to come from a legitimate source. It relates to both the activities of organised crime but also to those who benefit financially from dishonest activities such as receiving stolen goods.

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***“a scheme in which criminals try to disguise the identity, original ownership, and destination of money that they have obtained through criminal conduct. The laundering is done with the intention of making it seem that the proceeds have come from a legitimate source”.***

The School is potentially vulnerable to this threat and the consequences of being involved in an instance of money laundering may have a severe impact on the school’s reputation. It should be the exception that cash payments of more than £100 are accepted. It may be, very exceptionally, that a cash donation, or the payment of a terms fees has to be accepted. If so,this would be classed as a large or unusual transaction and the school will ask the parent, guardian or benefactor for information on how the cash was obtained and seek proof of this.

Money Laundering can take many forms, but in relation to the School it could involve, but will not be limited to:

* the donation of sums to projects for which an appeal is being run;
* the donation of sums for no obvious reason;
* the payment in advance of fees; and
* the requested return of fees paid in advance.

In addition, these activities could also add to a second “laundering” activity where reputations are reviewed and refreshed with injections of illicit wealth into acquisitions (cars and homes particularly) which complement the reputation generated by a family by having their child of children in a prestigious private school.

To guard against this risk the School will use the Charity Commission advice to assess the risk of money laundering:

* '**identify**' know who the School is dealing with;
* ‘**verify**' - where reasonable and if the risks are high, verify identities;

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* **'know what the organisation's or individual's business is**' and can be assured this is appropriate for the School to be involved with;
* ‘**know what their specific business is with the School**’ and have confidence that they will deliver what you want them to; and
* ‘**watch out**’ for unusual or suspicious activities, conducts or requests.

The following questions will form part of a risk assessment that will assist in composing a view of the cash being offered to the School. This should be completed for every sum of more than £100 accepted in cash.

**Annex A to Anti Money Laundering Policy**

The Bursary staff are to watch for the following warning signs, and should any of the following questions give a “yes” answer the Bursar should be informed:

1. Transactions: are transactions unusual because of their size, frequency or the manner of their execution, in relation to the parent's known business type?
2. Structures: do payments involve complex or illogical arrangements that make it unclear who is making the payment?
3. Assets: does it appear that a parent’s (or guardian’s) assets are inconsistent with their known legitimate income?
4. Resources: are a parent's funds made up of a disproportionate amount of private funding, bearer's cheques or cash, in relation to their socio-economic profile?
5. Identity: has the parent taken steps to hide their identity, or is the payer difficult to identify?
6. Is the parent (or guardian) unusually anxious to complete a transaction or are they unable to justify why they need the payment to be undertaken quickly?
7. Is the parent (or guardian) engaged in unusual private business given they hold a prominent public title or function?
8. Are information or documents being withheld by the parent or guardian or their representative, or do they appear falsified?
9. Are the parents native to, or resident in, a high-risk country?
10. Have you, or other professionals involved been instructed at a distance, asked to act outside of your usual specialty, or offered an unusually high fee?