

ACAMS[®] TODAY

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Investing in citizenship



Citizenship by Investment Programs (CIP), also known as Immigrant Investor Programs, grant citizenship to high net worth individuals who meet eligibility requirements and make significant capital investments toward stimulating a nation's economic development. Under eligibility requirements, applicants must pass criminal and security checks, and establish that no portion of their investment capital and net worth was obtained through criminal activities. Applicants deemed as high risk based on the nature or location of their business activities and country of origin, may undergo more in-depth due diligence investigations (IDD) in accordance with international anti-money laundering (AML) and counter-terrorist financing (CTF) policies and procedures.

The following article deals with recent international trends and challenges in the customer identification program (CIP). A review of these issues may lead to a better understanding of the risks posed to national governments and the need for investigative due diligence professionals with deeper international expertise.

Background

Citizenship by investment programs have been around since the 1980s when countries began offering residential and citizenship opportunities to high net worth (HNW) individuals. Early participating countries included Canada and St. Kitts and Nevis. Today, there are many more countries such as the U.K., U.S., Switzerland, Dominica, Belgium, Austria, Antigua and Barbados offering a wide range of investment and citizenship options to HNW applicants. The variance in the investment requirements range between US\$100,000

and US\$16,000,000. In addition, several other countries are in the process of developing and launching similar CIP offerings.

Over the last eight years, there has been considerable growth in the industry. This has been driven by a number of factors including:

- The need for increased government revenues in both developed and developing countries
- Increasing levels of wealth in emerging economies including China, Russia, Nigeria and India
- Political and economic uncertainty in the Middle East and other parts of the world
- An increase in demand for passports that allow more visa-free global movement
- Tax regimes that are considered by some to be draconian

Furthermore, recent trends in the structure and management of CIP, along with increased global AML and CTF regulations, highlight the need for investigators with longstanding expertise conducting international AML and IDD assignments.

Recent trends

Over the last few years there has been a noticeable spike in the number of applicants in most of the programs being offered. There continues to be strong interest from Russia and China, which is mostly driven by a desire for travel without the hassle of applying for visas. There has also been a dramatic increase in applicants from the Middle East where civil strife is wide spread and showing little likelihood of changing anytime soon. Lastly, the nouveau riche are interested for a host of reasons including education, residence, safe haven and wealth diversification.

Aspects of the industry are now being regulated because of the large dollar amounts involved, with said funds being transferred between countries and held in escrow accounts. Due to increased regulation, bank policies and other factors, participants in the industry have come to realize how imperative it is to conduct proper Know Your Customer (KYC) due diligence on applicants.

Application process

All of the countries offering programs have procedures that require applicants to complete numerous forms, provide supporting documentation and adhere to a rigorous due diligence process. An initial "front end" desk top due diligence is conducted during which the applicant provides basic information which allows the offering country an opportunity to screen out anyone who is unlikely to make it through the process. The next steps include interviewing the applicant and reviewing all information and documents provided. The applicant is required to complete a consent form waiving their right to privacy.

Historically, most of the vetting procedures were completed by government agencies, however, the current trend is to outsource reputational due diligence aspects of the procedure. The outsourcing of due diligence by authorized firms is due to increased multi-jurisdictional regulations, along with the realization by many countries that there is a responsibility to ensure the reputation of the industry is protected and the value of the passport is not diminished.

When conducting CIP due diligence assignments, an investigator may oversee the screening process on hundreds of engage-

ments and for the most part, the applicants are acceptable. However, when an opportunity is being offered at a global level to HNW subjects, some nefarious characters will attempt to take advantage of the system. While the due diligence service provider is not normally asked to opine on the findings, the research, if completed thoroughly and reported in an effective manner, will support sound decision making critical to the CIP process.

Lessons learned from past case studies

The following case studies provide insight into the challenges encountered and expertise required to successfully conduct CIP/IDD:

1. Lack of Public Information — This case study involved an applicant who was a Japanese national, living and residing in Tokyo. Japan is a challenging jurisdiction to conduct due diligence because of a lack of critical public information. In Japan, it is not possible to perform random searches in the criminal courts and third parties cannot access the national criminal record database. Finding information on the applicant was only possible by way of a proprietary database search to determine if the applicant had been previously convicted and incarcerated on a fraud offense which he had not disclosed. This case study underscores the importance of access to alternative information sources when conducting research while at the same time, ensuring local laws are not violated.

2. Inconsistent Information — The following case study involved a number of red flags, not from information that was located but rather from inconsistent and unverifiable information. Part of the due diligence process involves verifying certain information such as schools attended, addresses, employment and business history. While conducting the due diligence it became clear that the applicant had provided erroneous information in numerous categories. Also, it could not be determined where the applicant had acquired his wealth. It became clear this applicant was a “straw person” for someone behind the scenes who had acquired wealth through unlawful means and/or had a checkered past. This case demonstrates that when confronted with a pattern of inconsistent information it is imperative to use deductive methods to access available information which, in this case, led to an obvious decision.

3. Politically Exposed Persons — The third case study covers an area of focus by FATF for the past 10 years and affirmed in 2012, specifically, the identification and risk assessment of Politically Exposed Persons (PEP). In this instance, a PEP who did not want to be transparent for obvious reasons put forward a family member as the CIP applicant. The PEP’s family members are often a daughter/son or spouse but to avoid detection someone with a different surname is preferred. This way an immediate connection to the PEP is not made and allows for a better opportunity to get through the screening process. In this case, the use of in-country sources familiar with the local political scene proved instrumental in exposing the connection between the CIP applicant and the PEP. It is important to note that proprietary database searches will often not make this type of link.

4. Citizenship History — This case involved screening an applicant from the United Arab Emirates where there was a high probability that the applicant was not indigenous to the country as 85 percent of the population in the UAE originates from elsewhere. For this reason the applicant was compelled to disclose at least a 10 year history on where they have resided and left a footprint. It is critical for countries offering investment and residence opportunities to have set standards as to how far back the research will include. As itinerant criminals are always looking for a new place to park themselves and their illicit funds, the 10 year record of the applicant’s citizenship history allowed researchers to drill down far enough to detect an undesirable person who may have otherwise gotten through the CIP application process.

5. Sanctioned Country — The final case study involves an applicant who originated from a sanctioned country. As part of the application process he indicated degrees were obtained from a university located in Canada. While no record of the person attending this institution could be located, everything else about the applicant came back positive. However, this one deception from an applicant residing in a high risk, sanctioned country was a big red flag that could not be ignored.

Challenges

CIP applicants from emerging economies represent numerous challenges that must be overcome when conducting background checks and investigative due diligence. Often there is little or no open source information

available in emerging economies and therefore a local source is required to obtain any meaningful information. If a local source is used, it is imperative to engage someone who has the appropriate background, is licensed (if required) and can be discreet when necessary. To expose your client to any third party who is not competent, consistent, professional and trustworthy brings tremendous risks to all parties involved.

When conducting thorough due diligence on a subject residing in an emerging economy, the use of proprietary databases only is not feasible. It is estimated that in 20 percent of cases, critical information is missed when solely relying on this type of information. Local sources are essential to the process. Also, some jurisdictions are notoriously corrupt by allowing convictions to be expunged; political interference in criminal, civic and judicial matters; the dissemination of unreliable media reports; and a host of other equally challenging obstacles.

Conclusions

Over the past 10 years, the global economy has undergone several major changes which have resulted in more stringent regulation of AML and CTF, which have in turn contributed to increases in regulatory and due diligence requirements for CIP. Today, governments offering citizenships to HNW individuals understand that conducting due diligence in emerging, high risk and sanctioned countries involves a myriad of challenges which require advanced solutions carried out by senior investigators with proven expertise and methodologies.

Governments offering CIPs must ensure citizenship status is awarded to worthy applicants so as to preserve their country’s standing in the international community, maintain the value of their passports and mitigate risks associated with opening their borders to HNW individuals. IDD conducted by experienced professionals with in-country expertise, multiple language research capabilities and access to a large network of international resources is one of the most critical components of any immigrant investor program. 

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