Home Office Impact Assessment

Title: DAML (Defence Against Money Laundering Suspicious Activity Reports) Review (Economic Crime and Corporate Transparency Bill)	**Date**: 13 January 2023
IA No: HO0401	**Stage:** FINAL
RPC Reference No:	**Intervention:** Domestic
Other departments or agencies:	**Measure:** Primary Legislation
	Enquiries: Tom Bell tom.bell38@homeoffice.gov.uk

RPC Opinion: RPC Opinion Status	**Business Impact Target:** Qualifying provision

Cost of Preferred (or more likely) Option (in 2022/23 prices)

Net Present Social Value NPSV (£m)	264.9	**Business Net Present Value BNPV (£m)**	266.6	**Net cost to business per year EANDCB (£m)**	-31.0

What is the problem under consideration? Why is government intervention necessary?

The Government needs to legislate to create new exemptions for defence against money laundering (DAML) reporting to reduce the number of ineffective DAMLs submitted and enable law enforcement agency (LEA) resource to focus on higher value activity. The volume of DAMLs increased by 81 per cent between 2018/19 and 2019/20. Many DAMLs do not provide LEAs with asset denial opportunities (seizure of criminally obtained assets) but increase burdens on staff. Anti-money laundering (AML) regulated sector businesses experience delays of up to seven working days in processing customer transactions whilst awaiting a decision from the UK Financial Intelligence Unit (UKFIU).

What are the strategic and policy objectives, and the intended effects?

The strategic objective is to restore confidence in the criminal justice system (CJS) and reduce crime through greater prioritisation of LEA resource towards high priority work. The policy objective is to improve efficiency and enable LEAs and reporters to focus on higher-value activity. This should reduce the number of DAMLs reported that do not lead to asset denial opportunities, freeing up UKFIU resource and enable cost savings to the regulated sector with fewer submitted DAMLs. There should be fewer transactions subject to the seven-day delay, where a DAML is no longer needed. Success will be measured by the reduction in the number of DAMLs reported.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1: 'Do nothing'. This does not meet the Government's objectives.

Option 2: This will provide an exemption from DAML reporting for certain sub-categories of transactions of under £1,000. The exemption is also on the condition that it would exclude cases where a business suspects that someone other than the customer has an ownership right or interest over the property. This would provide banks with greater confidence to retain funds in these cases. This legislation will be permissive. This is **the Government's preferred option** and it meets the Government's objectives.

Main assumptions/sensitivities and economic/analytical risks	**Discount rate (%)**	3.5

The cost saving of submitting a suspicious activity report (SAR) instead of a DAML, is subject to significant uncertainty because it is difficult to predict future volumes given the introduction of this change. Volumes of DAMLs are taken at 2019/20 levels and assumed to grow at the trend growth of 2016-20, which is likely to be an under-estimate. It is assumed that all asset denial opportunities through a DAML are not possible through other means such as a SAR.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** October 2026.

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: ____________ Date: 23/01/2023

Summary: Analysis & Evidence — Policy Option 2

Description: DAML (Defence Against Money Laundering Suspicious Activity Reports) Review, Economic Crime and Corporate Transparency Bill.

FULL ECONOMIC ASSESSMENT

Year(s):	Price Base	2021/22	PV Base	2022/23	Appraisal	10	Transition	1
Estimate of Net Present Social Value NPSV (£m)						**Estimate of BNPV (£m)**		
Low:	113.4	**High:**	626.6	**Best:**	**264.9**	**Best BNPV**	**266.6**	

COSTS, £m	**Transition** Constant Price	**Ongoing** Present Value	**Total** Present Value	**Average/year** Constant Price	**To Business** Present Value
Low	0.03	2.07	**2.10**	0.24	0.03
High	0.52	3.78	**4.30**	0.50	0.52
Best Estimate	**0.15**	**2.40**	**2.55**	**0.30**	**0.15**

Description and scale of key monetised costs by 'main affected groups'

Familiarisation costs to businesses in the regulated sector are estimated to be **£0.03 to £0.5 million**, with a central estimate of **£0.2 million** (2021/22 prices) in year 1 only. **Total costs** are estimated to be **£2.1 to £4.3 million (PV)**, with a central estimate of **£2.6 million (PV)** over 10 years.

Other key non-monetised costs by 'main affected groups'

If businesses choose to alter their internal DAML submission process there may be some additional administration costs, such as training staff members or re-allocating staff. However, given that **Option 2** extends existing legislation, it is assumed that thse costs would be minimal and would represent a disproportionate effort to try and monetise as the data needed is not available.

BENEFITS, £m	**Transition** Constant Price	**Ongoing** Present Value	**Total** Present Value	**Average/year** Constant Price	**To Business** Present Value
Low	N/A	115.5	**115.5**	13.5	114.9
High	N/A	630.9	**630.9**	74.4	629.7
Best Estimate	**N/A**	**267.5**	**267.5**	**31.3**	**266.7**

Description and scale of key monetised benefits by 'main affected groups'

Total benefits, consisting of benefits to the regulated sector and UKFIU, are estimated to lie in a range of **£115.5 to £630.9 million (PV)**, with a central estimate of **£267.5 million (PV)** over 10 years. The considerable degree of uncertainty in DAML volume trajectories is reflected in the estimated benefits, more so in the high scenario estimates.

Other key non-monetised benefits by 'main affected groups'

The proposed legislation is expected to reduce delays for customers. Transactions can be delayed for up to seven working days, while the UKFIU considers approving or rejecting the DAML request. Reducing delays is also expected to result in increased trust and confidence in the regulated sector.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:					
Cost, £m	0.0	**Benefit, £m**	31.0	**Net, £m**	**31.0**
Score for Business Impact Target (qualifying provisions only) £m:					**-154.8**

Is this measure likely to impact on trade and investment?				N			
Are any of these organisations in scope?	**Micro** Y	**Small** Y		**Medium**	Y	**Large**	Y
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		Traded:		N/A	Non-Traded:	N/A	

PEOPLE AND SPECIFIC IMPACTS ASSESSMENT (Option 2)

Are all relevant Specific Impacts included?	Y	**Are there any impacts on particular groups?**	N

Evidence Base (for summary sheets)

A. Strategic objective and overview

A.1 Strategic Objective

1. Criminals continue to be relentless in their pursuit of financial gain and the Government's collaborative efforts must match and exceed their relentlessness.
2. The strategic objective of this proposal is to restore confidence in the criminal justice system and reduce crime through enabling greater prioritisation of law enforcement resource towards higher priority work.
3. This intervention is one of several interventions considered for 'Reforming Economic Crime Legislation'. The Government has listened to colleagues in law enforcement and the private sector and has heard the case for further legislative reform on economic crime, particularly to: enable effective information sharing; continue to improve the overall anti-money laundering (AML) response to money laundering (informed by the recent Law Commission Review[1] on aspects of the Suspicious Activity Reporting (SARs) regime and its ongoing review of the confiscation regime), and to strengthen the Government's ability to recover the proceeds of crime.
4. The measure considered in this impact assessment (IA) relates to a series of proposals aimed at reducing the regulatory burden on the AML regulated sector.

A.2 Background

What is a Defence Against Money Laundering Suspicious Activity Report (DAML SAR)?

5. A SAR is a piece of information which alerts law enforcement that certain client or customer activity is in some way suspicious and might indicate money laundering or terrorist financing. The regulated sector have an obligation to submit a SAR to the UKFIU in such circumstances or risk committing a Failure to Report offence, under the Proceeds of Crime Act 2002 (POCA 2002), s330-332. A Defence Against Money Laundering Suspicious Activity Report, henceforth referred to as a DAML, can be requested from the National Crime Agency (NCA) where a reporter has a suspicion that property they intend to deal with is in some way criminal.
6. A DAML provides a defence against the principal money laundering offences in s327-329 of POCA 2002, while providing intelligence to the UKFIU. DAMLs effectively freeze a transaction until a consent decision is made by the UKFIU or seven working days have passed, after which the business can assume consent. This means that businesses are regularly waiting for seven working days before being able to assume consent, where no decision is given, before proceeding with an action. In that period, the reporter cannot inform the customer that the delay is because a DAML has been submitted, as telling them would amount to a potential tipping off offence. The NCA is empowered to provide these criminal defences in law under s335 of POCA 2002. Reviewing these requests for a defence and disseminating to wider LEAs for input are the primary task of the UKFIU's DAML Team[2]. Between 2018/19 and 2019/20 the number of DAMLs submitted increased by 81 per cent from 34,543 to 62,408.

---

[1] Anti-money laundering: the SARs regime

[2] https://www.nationalcrimeagency.gov.uk/who-we-are/publications/167-defence-against-money-laundering-daml-faq-may-2018/file

A.3 Groups affected

7. Law enforcement agencies (LEAs) will be affected. Additional DAML exemptions would free up time in UKFIU and also affect the DAMLs available for wider LEAs.

8. The Criminal Justice system (CJS) may be affected. There is a possibility that further DAML exemptions may affect asset denial.

9. Individuals who are the subject of exempted DAMLs by the AML regulated sector businesses will also be affected. The review is expected to reduce delays for customers. Transactions for individuals can be delayed for up to seven working days while the UKFIU considers a DAML request.

10. Regulated sector. The regulated sector is defined in Schedule 9 of the POCA 2002[3] as:

- Banks and credit institutions.
- Stockbrokers and investment firms.
- Insurance companies and insurance intermediaries.
- Auditors, accounts, book-keepers, tax advisers.
- Property dealers and estate agents.
- Trust or company formation and management.
- Legal services.
- Trading in goods for cash of at least £13,000.
- Casinos.
- Auction platforms.

A.4 Consultation

11. This IA accompanies the bill on 'Reforming Economic Crime Legislation'.

12. The Government issued a targeted consultation paper to consult on a value-based threshold exemption from DAML reporting. The consultation paper sought views from the main stakeholders in the AML regulated sector and wider organisations that are impacted by economic crime. The consultation paper set out 35 questions on measures covering AML, crypto-assets and Unexplained Wealth Orders (UWOs), and was shared with over 100 organisations. Written responses were received from 44 organisations (a response rate of 44%) and approximately 90 per cent of respondents were from within the AML regulated sector.

13. The targeted consultation showed that around 95 per cent of respondents supported a value-based threshold exemption, with a few stakeholders concerned that intelligence could be lost. However, this is mitigated with the requirement for a SAR under s.330 of POCA 2002. Some sectors felt that a higher threshold of at least £3,000 would be more beneficial. In consultation with the NCA, the Government believes that aligning the monetary threshold with the minimum for an account freezing order balances raising the threshold with the risk of lost intervention opportunities. There has also been consideration of a lower threshold of £1,000: A threshold of below £1,000 would reduce volumes, but DAMLs would still be submitted but an account freeing order could not be obtained and progressed towards asset denial. It was also felt that a higher threshold, such as £3,000, would introduce more risk into the system, because more opportunities to pause or disrupt transactions would be lost. But a threshold of £1,000 would still alleviate the burden on the reporting sectors. The monetary value will be kept under review by the public/private cross-sector SARs Advisory Group and will be able to be raised or lowered in secondary legislation.

[3] https://www.legislation.gov.uk/ukpga/2002/29/schedule/9

B. Rationale for intervention

Problem under consideration

14. Under POCA 2002, it is possible for a person to avoid prosecution for dealing with what they suspect to be criminal property – contrary to the money laundering offences – by submitting an authorised disclosure (a DAML) to the NCA and obtaining consent for the action. Receipt of a DAML provides law enforcement with information which could lead them to refuse consent and then take action in respect of the criminal property, for example, with a civil recovery action.

15. Recently, the volume of DAMLs has risen considerably. Between 2018/19 and 2019/20 they increased by 81 per cent, from 34,543 to 62,408[4]. However, many DAMLs do not provide LEAs with asset denial opportunities despite increasing the burden on staff throughout the system. This includes the AML regulated sector, UKFIU (hosted in the NCA) and LEAs that must review and triage DAMLs. This low effectiveness is demonstrated by under 2 per cent of all DAMLs in 2019/20 resulting in criminal assets being denied (that is, forfeited)[5].

16. There is no established mechanism to remove or amend reporting obligations that provide low intelligence value to LEAs, to improve the value of intelligence from the regulated sector and release capacity engaged in low value activities. Ineffective reporting could be dealt with more effectively by changing how certain categories of reports are made, if they do not align with LEAs priorities- or evidence that suggests they do not lead to asset denial opportunities.

17. To improve the effectiveness of the system, the Government intends to create legislative exemptions for certain types of transaction from the substantive money-laundering (ML) offences in primary legislation. Exemptions will be based on transaction value, and for certain sub-categories of transactions. The POCA 2002 already contains exemptions for dealings by banks and building societies with suspected criminal property, for transactions under £250 in the operation of an account, and the Government would seek to extend this approach. This would free up UKFIU resource otherwise allocated to triaging DAMLs to focus on asset denial opportunities, resulting in cost savings to the regulated sector, due to fewer DAMLs being submitted. It would also result in fewer delayed transactions where a DAML was no longer needed. Use of exemptions would be voluntary and reporters could still submit a DAML where they felt this was warranted. The exemption is also on the condition that it would exclude cases where a business suspects that someone other than the customer has an ownership right or interest over the property. This would provide banks with greater confidence to retain funds in these cases.

C. Policy objective

The policy objectives are to reduce the number of ineffective DAML reports in order to:

- Improve the effectiveness of the AML system by creating new exemptions for certain types of transaction from the substantive ML offences.
- Free up UKFIU resource otherwise allocated to triaging DAMLs to focus on asset denial opportunities.
- Avoid costs to the regulated sector as a consequence of submitting certain categories of DAMLs.
- Have fewer delayed transactions.

[4] file (nationalcrimeagency.gov.uk)
[5] file (nationalcrimeagency.gov.uk) – of 62,408 DAMLs, 1,062 led to positive action by LEAs (e.g. cash seizure)

D. Options considered and implementation

Option 1: 'Do Nothing'

18. **Option 1** would entail no further government intervention through additional DAML exemptions. DAMLs would continue to be submitted under current guidance and exemptions. Costs and benefits for the other options assessed in this IA are measured relative to the 'do nothing' position (that is, the current situation represents the counterfactual in this analysis). This does not meet the Government's objectives.

Option 2: Provide exemption from DAML reporting for certain sub-categories of transactions under £1,000 detailed below**.** This is **the Government's preferred option** and it meets the Government's objectives.

- **Option 2** requires primary legislation to create a new exemption for a new monetary value threshold for exiting a relationship with a customer and paying any funds or property back to that customer (exit and pay away), where the value is under £1,000, with the ability to raise or lower this monetary value in secondary legislation. Further we will raise the existing s339A exemption using existing secondary legislation provision.
- The existing POCA s.339A exemption threshold for certain DAMLs would be extended using the existing secondary legislation power from £250 to £1,000 for deposit taking bodies, electronic money institutions and payment institutions. This means that relevant transactions in the operation of the account under £1,000 would not require a DAML. In 2021, the Financial Services Act 2021 (FSA 2021) brought electronic money institutions (EMI) into the existing £250 s.339A threshold. The data set available was from 2019/20, prior to the exemption commencement. Therefore, DAML reduction by EMIs is calculated on DAMLs in operating an account between £250-£1,000, as DAMLs for EMIs under £250 are already exempt.
- A new monetary value threshold exemption at £1,000 would be created for the whole AML regulated sector for DAMLs, specifically for the act of exiting a relationship with a customer and paying away funds or property. This means that transactions under the £1,000 threshold related to *exiting and paying away a customer* would not require a DAML. To exit and pay away means the termination (or '*exiting'*) of a business relationship with a customer and paying back funds or other property to the customer.
- This should generate more effective DAML reporting which provides increased value to LEA outcomes and reduces the burden on resources for ineffective reporting.
- The Government believes that only creating a specific exemption in legislation would provide reporters with the necessary confidence to avoid submitting unnecessary DAMLs by removing risks to businesses. For these reasons a non-regulatory option has not been included.
- The exemption is also on the condition that it would exclude cases where a business suspects that someone other than the customer has an ownership right or interest over the property. This would provide banks with greater confidence to retain funds in these cases.

E. Appraisal

General assumptions and data

- The appraisal period for measuring the impacts of the proposed DAML review is 10 years and starts in 2022/23 and 10-year appraisal values are in 2022/23 prices.

- A 3.5 per cent annual social discount rate is used.[6]
- Annual costs and benefits are in 2021/22 prices.
- Both UKFIU and regulated staff are assumed to work eight hours per day, 227 days a year[7].
- All calculations use median hourly wages from the Annual Survey of Hours and Earnings (ASHE) 2020, Table 14.5[8]. There were concerns that the pandemic could have impacted the 2020 figures, and may under-estimate costs. However, 2020 figures, once inflated to price year 2021/22, are closely in line with the ASHE 2019 data (pre-pandemic levels). Although more recent data does exist, the ASHE 2020 data has been used as the 2021 data appears to be impacted by the pandemic.
- All costs and benefits are relative to **Option 1 '**Do Nothing'.

Inputs

19. Many of these inputs are taken from Deloitte engagement with the UKFIU and stakeholder workshops with the regulated sector, as well as UKFIU data. The workshop had participants from 14 different firms from the regulated sector. These firms came from a variety of different regulated subsectors, though there were no representatives from financial technology (fintech) firms. Deloitte engaged externally with a fintech firm to gather relevant evidence.

20. Table 1 presents the number of DAMLs subject to legislative exemptions in year one, and these are broken down by type of exemption. The UKFIU data comes from a random sample of 1,099 DAMLs taken from total DAML caseload in FY2019/20, as well as examining all 1,380 refused DAMLs from FY2019/20.

21. The sample DAML data specifies the related transaction value and the sector from which each DAML was submitted, and includes the category 'exit and pay away'.[9] To calculate the total number of DAMLs expected to be subject to legislative exemptions in year one, the proportion of DAMLs in the random sample for 1) transaction values under £1,000 related to exit and pay away from all sectors, and 2) transaction values under £1,000 from the financial sector[10] (excluding any related to exit and pay away) have been applied to the total number of DAMLs submitted in the year 2020/21.

Table 1, Total exempted DAMLs in year 1 (volume, %), 2019/20.

Exemption categories	No. DAMLs subject to legislative exemption in year 1	Proportion of DAMLs switched to SAR (%)	No. of DAMLs exempted in year 1
Under £1,000 exit and pay away	24,000	85	20,000
Under £1,000 Financial sector (excl. exit and pay away)	8,000	85	7,000
Total exempted	**31,000**	**85**	**27,000**

Source: UKFIU DAML data, NCA, 2022.

22. The percentage of DAMLs that are no longer reported as DAMLs, and so reported as SARs instead, is estimated to be 85 per cent. This is based on analysis by the NCA of glossary code data[11].

23. Data from the NCA shows that DAML volumes have been increasing year-on-year. Table 2 shows the number of DAMLs reported each year since 2016/17 and the respective percentage increases.

---

[6] The Green Book (publishing.service.gov.uk)

[7] In the absence of firm level data FTEs are assumed to work 47 weeks per year (incorporating 5 weeks of leave) on average, 5 days per working week, and excluding 8 bank holidays per year, and the average working day is 8 hours.

[8] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14

[9] 'To exit and pay away means the termination (or "exiting") of a business relationship with a customer and paying back funds or other property to the customer.

[10] Financial sector here refers to deposit taking bodies, electronic money institutions and payment institutions.

[11] Each DAML is classified by a glossary code, to represent the reason for submission/type of DAML.

Based on the most recent four years of data, DAML volumes have been increasing between 20 and 81 per cent each year, with an average of 55 per cent each year[12]. It is not expected that DAMLs will continue rising at such a high rate as 81 per cent per year for the next 10 years. A conservative approach is taken with a low, central and high range of 10 (half of the low rate), 20 (low rate) and 55 (average rate) per cent applied for the percentage increase in DAML reports expected to be exempted per year[13]. The uncertainty around factors driving DAML volume growth trends informs the additional assumption that the growth rate applies for the second and third year in the modelled period before flat-lining to year 10. Table 2 shows the the volume of DAMLs and the percentage increase over the period 2016/17 to 20220/21.

Table 2, Percentage increase in DAML reports per year, 2016/17 to 2019/20.

Year	Number of DAMLs	Percentage increase (%)
2016-17	18,849	-
2017-18	22,619	20
2018-19	34,543	53
2019-20	62,408	81
2020-21	105,107	68
Average percentage increase (%)		**55**

Source: NCA DAML data 2016-2020.

24. The estimated average number of DAMLs triaged by a UKFIU team member working in the DAML team per day is taken to be 100, based on consultation with UKFIU.

25. The UKFIU average FTE salary (including overheads) is estimated to be £55,000 for the DAML team in UKFIU. This comes from consultation with UKFIU.

26. Estimates for the cost saving of submitting a SAR instead of a DAML are presented as a range based on stakeholder survey responses. The range of cost saving estimates of submitting a SAR instead of a DAML are based on an informal survey of regulated entities across different sectors, with a sample size of 14. The Fintech firm engaged with did not respond to this question, so in the absence of robust assumptions, the cost saving for Fintech firms has been assumed to be zero. The proportion of DAMLs exempted by sub-sector is from NCA data[14]. This information is presented in Table 3:

Table 3, Expected cost saving & proportion of exemptions by sub-sector, £, 2020/21 prices

Sector	Of total DAMLs subject to legislative exemptions, what percentage are from sector (per cent)	Cost saving of submitting one SAR instead of one DAML by sector (£)		
		Low	Central	High
Banking	30	700	1,500	2,200
Accounting	0	700	1,500	2,200
Legal	0	3,000	3,000	3,000
Fintech	43	0	0	0
Other	27	700	1,500	2,200
Total/Average	**100**	**1,020**	**1,500**	**1,920**

Source: Row 1 (DAML) SG3 workshop participants survey, Home Office commissioned – 22nd October 2020, and Row 2 UKFIU data.

[12] file (nationalcrimeagency.gov.uk), file (nationalcrimeagency.gov.uk), file (nationalcrimeagency.gov.uk)
[13] The average of 55 per cent is taken as the high estimate, 20 per cent as the central estimate, and 10 per cent (half of the central estimate) as the low.
[14] From direct engagement with UKFIU and NCA.

Appraisal

27. The POCA 2002 already contains exemptions for dealings with suspected criminal property by deposit taking bodies, electronic money institutions and payment institutions, in the form of the operation of an account by them which is below £250, and the Government would seek to extend this approach. This would free up UKFIU resource otherwise allocated to triaging DAMLs to focus on asset denial opportunities and would result in cost savings to the regulated sector as a consequence of submitting fewer DAMLs. It would also result in fewer delayed transactions where a DAML was no longer needed.

COSTS

Set-up Costs

Familiarisation costs

28. It is assumed that all firms in the regulated sector read 400, 500 or 600 words on a screen or on paper to become familiar with the new exemptions. This gives an estimate of 1.2, 1.8 and 4.8 minutes per person to become familiar with the new legislation[15]. It is assumed that one, three or four people in each firm will need to become familiar with the new legislation[16]. Time will be spent building an understanding of what the legislation means and its relationship with existing policies. The Financial Conduct Authority (FCA) regulated nearly 51,000 firms in 2021, and this is taken to be the number of firms in the regulated sector[17]. The FCA figure is used as a proxy due to lack of alternative accurate number of businesses in the wider AML regulated sector. Due to data suggesting that there are approximately 17,400 employees in financial crime roles in the regulated sector[18], it is likely that the estimated familiarisation costs are an over-estimate because the central scenario assumes over 150,000 employees will need to familiarise themselves with this legislation.

29. For all firms, time has been valued using data from the Annual Survey of Hours and Earnings (ASHE) 2020. The analysis uses a median wage figure for financial institution managers and directors Standard Occupational Classification (SOC) code 1150, of £26.00 per hour[19], which is then uplifted by the non-wage share of costs of 22 per cent to reflect the marginal product of labour[20].

30. The values used to estimate the familiarisation costs are presented in Table 4 and given as:

Number of firms x number of readers in each firm x average familiarisation time x (median financial institution managers and directors wage x non-wage uplift of 22%)

31. The estimated cost lies in a range of **£0.03 to £0.52 million**, with a central estimate of **£0.15 million** in year 1 only. Business engagements during the targeted consultation did not indicate that any additional dissemination of information costs or training would be needed, so these costs are not included in the familiarisation costs to businesses.

[15] Based on readingsoft average of 200 wpm with 60 per cent comprehension, slightly uplifted to allow for full comprehension Speed Reading Test Online (readingsoft.com)

[16] Number of readers in each firm is a weighted average that accounts for the size of firms in the business population. The assumption on the number of readers in each category of firm size differ. For micro firms, the number of readers is assumed to be two (low), three (central), and three (high). For small firms (two, three, and five respectively), medium firms (two, five, 10), and for large firm (five, 10, 20). Approximately 83% firms in the financial sector are sole proprietors, this informs the overall low scenario assumption of one reader per firm.

[17] Sector overview | FCA

[18] Financial Crime: analysis of firms' 2017-2020 REP-CRIM data | FCA

[19] Earnings and hours worked, occupation by four-digit SOC: ASHE Table 14 - Office for National Statistics (ons.gov.uk) table 14.5a

[20] Non-wage cost is 17.9 per cent (from Eurostat), take 18/(100-18) = 18/82 = 22 per cent and uplift by this amount. https://ec.europa.eu/eurostat/databrowser/view/LC_LCI_LEV__custom_2052124/default/table?lang=en

Table 4, Familiarisation costs to business, year 1 only, 2021/22 prices, 2022

Estimate	Number of Firms	Number of Readers in each firm	No. words to be read	Reading speeds	Average Familiarisation Time (hours)	Hourly cost (£)	Total cost to business, Year 1 only (£ million)
Low	51,000	1	400	700	0.02	31.83	0.03
Central	51,000	3	500	400	0.03	31.83	0.15
High	51,000	4	600	200	0.08	31.83	0.52

Source: Assumption, Readingsoft, ASHE 2020 table 14.5a

Ongoing costs

32. There are no monetised ongoing costs for the proposed DAML exemptions for business. This is because the legislation decreases the reporting burden on businesses and UKFIU by reducing the number of DAMLs submitted each year. The legislation is permissive, so it is assumed that regulated sector businesses will only alter their submission process where it leads to a net benefit for them. There are disbenefits to the public sector.

Public asset denial cost

33. There will be some asset denial opportunities that may be lost because of exempted DAMLs (a disbenefit). It is assumed that lost asset denial opportunities are not possible through other means such as a SAR. These disbenefits are classed as a cost and are likely to be over-estimates.

34. The asset denials data is taken from UKFIU data for all 1,380 refused DAMLs from FY2019/20. The data specifies the related transaction value and sector, and includes the category 'exit and pay away'.

35. This cost is calculated by using the asset denial from the total caseload in 2019/20 under the proposed exempt categories for the options, and multiplying that by the expected proportion of DAMLs that will be reported as a SAR following the exemption. The asset denials from the 2019/20 data have been inflated to 2021/22 price year for consistency. The asset denial cost in year 1 is presented in Table 5 and given as:

Known asset denial from DAMLs in 2019/20 under proposed exemption threshold (inflated to 2021/22 prices) x expected percentage that will be submitted as a SAR following exemption

Table 5, Asset denial disbenefit, £ million, 2019/20 base, 2021/22 prices.

Element	Known asset denial from DAMLs in 2019/20 under proposed exemption threshold (£m)	Expected percentage of DAMLs that will be submitted as a SAR following exemption (%)	Estimated asset recovery no longer possible following exemption (£m)
Under £1,000 exit and pay away	0.21	85	0.18
Under £1,000 Financial sector (excl. exit and pay away)	0.03	85	0.03
Total	**0.24**	**85**	**0.20**

Source: UKFIU data on refused DAMLs, NCA.
Note: Figures may not sum exactly due to rounding

36. It is assumed that asset denial volumes would increase as DAML volumes increase. The percentage rise in DAML volumes of between 10 and 56 per cent each year, with a central estimate of 20 per cent (based on the most recent five years of DAML data) has been applied to the asset denial figures. The uncertainty around factors driving DAML volume growth trends informs the additional assumption that the growth rate applies for the second and third year in the modelled period before levelling off. Table 6 represents the total expected asset denials lost through DAML exemptions each year. The estimated cost lies in a range of **£2.1 million (PV) to £3.8 million (PV)**, with a central estimate of **£2.4 million (PV)** over the 10-year appraisal period**.**

Table 6, Asset denial disbenefit per year, £ million (PV) over 10 years, 2022.

Year	Low	Central	High
2022/23	0.2	0.2	0.2
2023/24	0.2	0.2	0.3
2024/25	0.2	0.3	0.5
2025/26	0.2	0.3	0.4
2026/27	0.2	0.3	0.4
2027/28	0.2	0.2	0.4
2028/29	0.2	0.2	0.4
2029/30	0.2	0.2	0.4
2030/31	0.2	0.2	0.4
2031/32	0.2	0.2	0.4
Total 10yrs	**2.1**	**2.4**	**3.8**

Source: UKFIU, NCA, 2022.

Non-Monetised Costs

37. If businesses choose to alter their internal DAML process, there may be some additional administration costs such as the cost to reallocate staff. However, given that **Option 2** extends existing legislation, it is assumed that any additional costs will be minimal and would represent a disproportionate effort to try and monetise as the data needed is not readily available. As the legislation is permissive, it is also assumed that banks or wider AML regulated sector businesses that would face large costs to alter their DAML submission process would choose not to.

Total Costs

38. Total estimated costs lie in a range of **£2.1 to £4.3 million (PV)**, with a central estimate of **£2.5 million (PV)** over 10 years. For the private sectors, the estimated cost lie in a range of **£0.03 to £0.52 million (PV)**, with a central estimate of **£0.15 million (PV)** over 10 years. For the public sector, the estimated benefit lie in a range of **£2.1 to £3.8 million (PV)**, with a central estimate of **£2.4 million (PV)** over 10 years.

BENEFITS

Set-up benefits

39. There are no monetised set-up benefits for the proposed DAML review.

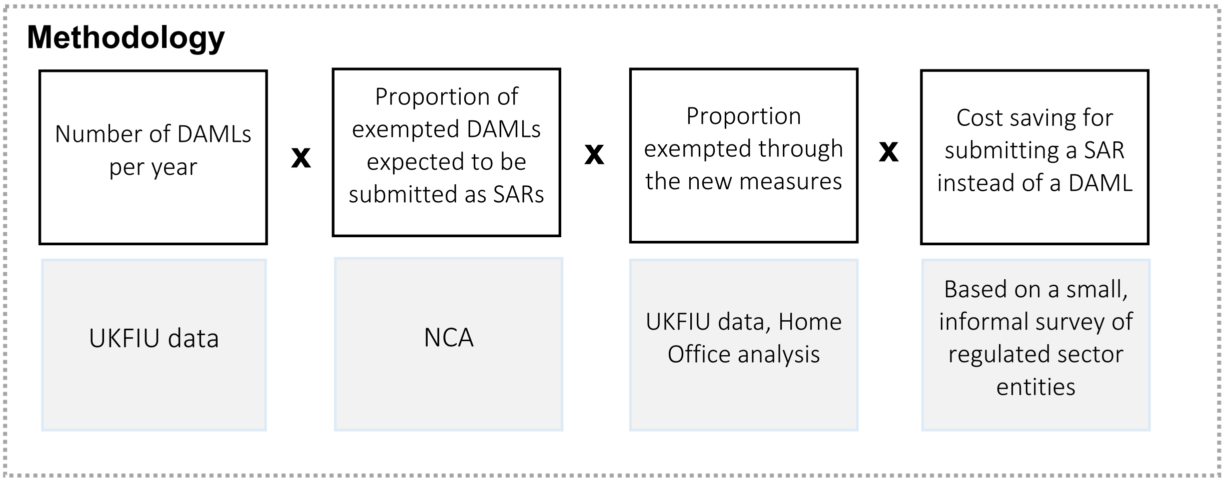
Ongoing benefits

Regulated Sector Benefit – Private

40. Most of the ongoing benefits come from regulated sector benefit which captures the time saved by submitting a SAR instead of a DAML. This takes the number of DAMLs exempted, determining the percentage of exempt DAMLs that are expected to be submitted as SARs, and multiplying that by

the difference in unit cost for a DAML against a SAR submission. This is calculated by regulated sub-sector.

Figure 1, Benefits methodology, 2022.



41. The range of cost saving estimates comes from a small stakeholder workshop of expert opinion and had a large range between the low and high estimate. The workshop had participants from 14 different firms from the regulated sector, from a variety of different regulated subsectors.

42. The DAML review will affect different sub-sectors in the regulated sector by different amounts. Table 7 shows the percentage of DAMLs subject to legislative exemptions per year by regulated sub-sector, which is based on NCA data. It also shows the annual cost saving of submitting a SAR instead of a DAML, which is based on stakeholder survey responses. The survey responses found that this cost saving was different for different sub-sectors.

Table 7, Percentage of DAMLs subject to legislative exemption by sector and cost savings to the regulated sector, £, 2021.

Sector	Of total DAMLs subject to legislative exemptions, what percentage are from sector (%)	Cost saving of submitting one SAR instead of one DAML by sector (£)		
		Low	Central	High
Banking	30	700	1,500	2,200
Accounting	0	700	1,500	2,200
Legal	0	3,000	3,000	3,000
Fintech	43	0	0	0
Other	27	700	1,500	2,200
Total/Average	**100**	**1,020**	**1,500**	**1,920**

Source: NCA, Survey responses, Home Office analysis.

43. It is assumed that that DAML volumes increase at rates of 10, 20 and 55 per cent in years 2 and 3, then flat-line up to year 10, for the L, C and H scenarios respectively. These increases are based on DAML volumes for the latest five years recorded by the NCA. The uncertainty around factors driving DAML volume growth trends informs the additional assumption that the growth rate applies for the second and third year in the modelled period before levelling off. Table 8 presents the total expected number of DAMLs exempted per year.

Table 8, Total expected number of DAMLs that will be submitted as SARs per year (000s), following the legislative exemption, 2022/23 to 2031/32

Year	Low	Central	High
2022/23	27	27	27
2023/24	29	32	41
2024/25	32	39	64
2025/26	32	39	64
2026/27	32	39	64
2027/28	32	39	64
2028/29	32	39	64
2029/30	32	39	64
2030/31	32	39	64
2031/32	32	39	64

Source: NCA DAML data 2016-2021.

44. The number of DAMLs expected to be submitted as SARs is then multiplied by the proportion of DAMLs subject to legislative exemption by sector, and the range of sector-specific cost savings in Table 5. The estimated benefit lies in a range of **£114.9 to £629.7 million (PV)**, with a central estimate of **£266.7 million (PV)** over 10 years.

45. There is some uncertainty regarding the estimated cost saving from submitting a SAR instead of a DAML. The cost saving estimates used in the main analysis are based on a stakeholder survey of 14 firms. Internal Home Office analysis based on engagement with two stakeholders suggested that the cost saving from submitting a SAR instead of a DAML is around £300. This lower figure has not been used in the main analysis due to considerable limitations: it is based on responses from two banks, which may not be representative of all regulated sector firms, whilst the stakeholder survey takes a larger sample size from a range of sectors, and the figure does not allow for a range to be calculated. If the cost saving was £300, the central estimate of the net benefits would be £53.7 million (PV) over 10 years – a more conservative cost saving estimate that still returns a positive net benefit.

UKFIU Benefit

46. There is also a small UKFIU benefit that monetises freed up time at the UKFIU from lower DAML triage activity. The values used to estimate the UKFIU benefit are presented in Table 9 and given as:

Number of DAMLs exempted[21] (see Table 6) x average time to triage a DAML x hourly cost of an FTE in UKFIU

47. The estimated benefit lies in a range of **£0.7 to £1.2 million (PV)**, with a central estimate of **£0.8 million (PV)** over the 10-year appraisal period.

Table 9, Time for UKFIU to triage a DAML, hourly cost of FTE in UKFIU, £, £ million PV, 2021.

	UKFIU time to triage each DAML report (hours)	Cost of FTE time per hour (£)	Total benefit to UKFIU (£m) 10 yr PV
Low	0.08	30.08	**0.7**
Central	0.08	30.08	**0.8**
High	0.08	30.08	**1.2**

Source: UKFIU, Home Office analysis

[21] The number that UKFIU are no longer required to triage

Non-monetised benefits

48. The review is expected to reduce delays for customers – currently, transactions can be delayed for up to seven working days while the UKFIU considers the DAML request. Each DAML that is exempted means a transaction is no longer delayed whilst waiting for consent. Fewer DAMLs could also indirectly benefit customers that still face delays due to non-exempted DAMLs, as the UKFIU would have fewer DAMLs to process. This is also expected to result in increased trust and confidence in the regulated sector.

49. There are also benefits to LEAs as they can focus their resource on DAMLs which generally provide greater opportunities for LEAs to take action (DAMLs for transactions which have a high refusal rate). This may offset the potential lost asset denial as a result of the exemptions. This has not been monetised as the extent of this benefit is uncertain.

Total Benefits

50. **Option 2** total estimated benefits lie in a range of **£115.5 to £630.9 million (PV)**, with a central estimate of **£267.5 million (PV)** over 10 years. For the private sectors, the estimated benefit lie in a range of **£114.9 to £629.7 million (PV)**, with a central estimate of **£229.7 million (PV)** over 10 years. For the public sector, the estimated benefit lie in a range of **£0.7 to £1.2 million (PV)**, with a central estimate of **£0.8 million (PV)** over 10 years.

Total costs and benefits, NPSV, BNPV and net direct cost to business

51. The estimated total cost for **Option 2** lies in the range **£2.1 to £4.3 million (PV),** with a central estimate of **£2.5 million (PV)** over 10 years. The total benefit lies in the range **£115.5 to £630.9 million (PV)**, with a central estimate of **£267.5 million (PV)** over the same period.

52. The Net Present Social Value (NPSV), which is the total discounted benefits minus the total discounted costs, lies in a range of **£113.4 million to £626.6 million (PV)**, with a central estimate of **£264.9 million (PV)** over the 10-year appraisal period.
53. The Business Net Present Value (BNPV) lies in the range **£114.8 million to £629.2 million (PV)**, with a central estimate of **£266.6 million (PV)** over the 10-year appraisal period.
54. The net cost to business per year (EANDCB) lies in the range **-£13.3 million to -£73.1million,** with a central estimate of **-£31.0 million**.

55. Table 10 displays the NPSV, the BNPV, and the net direct cost to business. Estimates are in 2021/22 prices with a present value base year (PVBY) of 2022/23.

Table 10, Costs and benefits summary, PV over 10 years, £ million 20222/23 prices.

Costs	**Low**	**Central**	**High**
Total set up costs	0.0	0.1	0.5
Total ongoing costs	2.1	2.4	3.8
Total costs *(of which)*	**2.1**	**2.5**	**4.3**
Private Sector	2.1	2.4	3.8
Public Sector	0.03	0.2	0.5
Total benefits *(of which)*	**115.5**	**267.5**	**630.9**
Private Sector	114.9	266.7	629.7
Public Sector	0.7	0.8	1.2
NPSV	113.4	**264.9**	626.6

BNPV	114.8	**266.6**	629.2
EANDCB	-13.3	**-31.0**	-73.1

Source: Home Office internal analysis, 2022.
Note: Figures may not sum exactly due to rounding

Value for money (VfM)

56. For a policy to be considered VfM, it must achieve the strategic and policy objectives. **Option 2** is likely to meet the policy objectives of improving effectiveness of the AML system, freeing up time for UKFIU, avoiding costs to the regulated sector and reducing delayed transactions for individuals. This will help to achieve the strategic objectives of restoring confidence in the criminal justice system and reducing crime. Success will be measured by a reduction in the number of DAMLs submitted each year.

57. When a DAML is raised, businesses are essentially requesting permission from the NCA to carry out an activity that is otherwise prohibited by the principal money laundering offences under POCA 2002. For the period 2019/2020, the number of DAMLs raised was 62,408, with only 2,055 of these refused, meaning the NCA gave permission for businesses to carry out an activity for 96.7 per cent of these, so 3.3. per cent of DAMLs raised were refused. The proposed legislative exemption is expected to reduce the number of DAMLs raised by businesses, and in so doing, addresses a current inefficiency in the SARs regime where only a small fraction of all DAMLs raised are refused. The reduction in DAML volumes estimated in the IA suggest that the legislation will result in efficiency gains.

58. The costs would be borne by the regulated sector. The benefits accrue to the regulated sector and UKFIU. The benefits include cost savings for the regulated sector through reduced reporting burdens, and freeing up UKFIU time spent on DAML triage.

59. There is also a cost which would be borne by the public sector. This arises from the potential lost asset denial opportunities through raising the DAML threshold. In the past, DAMLs submitted under the specified thresholds may have led to asset denial outcomes. By raising the threshold, these asset denials would no longer be possible. Some of these asset denials may still be captured through SARs or other routes, so it is possible that the lost asset denials calculated here are an over-estimate. However, it has not been possible to calculate to what extent these estimates may over-estimate the true value of lost asset denials, due to uncertainty and a lack of data.

60. Overall, the proposed changes offer good value for money, especially from an economic and efficiency perspective. Reduced regulatory burden on the regulated sector – if exemptions are implemented – these could save the industry just over £266.7 million over 10 years. The estimated business cost is approximately 0.06 per cent of the estimated benefit. The range of groups expected to benefit from these measures, the relatively low costs, and the NPSV of £264.9 million indicates the benefits outweigh the costs of this policy.

Impact on small and micro-businesses

61. Small and micro-businesses make up the majority of the regulated sector by number of businesses. According to Business Population Estimates 2021, around 99 per cent of the total business population is made up of small businesses (0 to 49 employees)[22]. These measures are legislative exemptions which are not targeted at small and micro-businesses but will affect them as members of the regulated sector. **Option 2** is a permissive measure and so there is a reasonable expectation that business will adopt these changes only where they lead to net benefits for business. **Option 2** is estimated to have a net benefit for businesses as it is designed to reduce the burden on the

[22] 2021 Business population estimates for the UK and the Regions: Statistical Release (publishing.service.gov.uk)

regulated sector. This should ensure that there are no disproportionate burdens on small and micro-businesses.

F. Proportionality

62. As this is a Final Stage IA, the aim has been to monetise impacts as far as possible, making use of findings from the Home Office targeted consultation with the regulated sector and law enforcement. The impact estimates associated with the proposed changes are indicative only.

63. Whilst the IA would have benefited from the monetisation of all the identified benefits and costs, a proportional approach was taken to monetise benefits and costs that were considered to have material impacts, with those expected to have minimal impacts unmonetised. In most cases of unmonetised benefits or costs, there was either a lack of data or considerable data challenges.

G. Risks

64. There is a risk that the expected percentage of DAMLs that will be submitted as SARs is lower than anticipated, which would result in a lower cost saving. This uncertainty has been modelled in the sensitivity section, which shows that with a lower percentage of exempted DAMLs, the benefits are still expected to outweigh costs and result in a positive overall net benefit.

65. There is uncertainty regarding the volume of DAMLs expected to be raised each year. DAMLs have been rising significantly in recent years. The potential impact of this uncertainty has been accounted for by modelling low, central and high scenarios for the forecasted increase in DAMLs submitted (by 10, 20, and 55 per cent in years 2 and 3, then flat-lining up to year 10) in the main analysis. This shows that the net impact is still positive even when using the low scenario. However, this assumes that the volume of DAMLs submitted will follow a broadly similar trend in the second and third year before levelling off, and this is a highly uncertain assumption (made in the absence of any data to suggest otherwise). It has also been assumed that DAMLs are unlikely to continue rising at the higher rate of 81 per cent per year for either of the scenarios. However, if this was the case the net benefit would be significantly higher.

66. There is some uncertainty around the estimated cost saving from submitting a SAR instead of a DAML, which could reduce the expected benefits of the measures. The main analysis uses a range of cost saving estimates gathered from expert workshops to account for this uncertainty, but these estimates are still inherently uncertain due to the small sample size that may not be representative of the whole regulated sector. Nevertheless, one respondent to the survey was responsible for about one third of the total SARs submitted to the NCA in 2020, and two respondents were responsible for submitting around 30 per cent of the total DAMLs submitted in 2020. There is a considerable degree of confidence that the data provided is representative of the credit and financial sector, which translates to lower degree of uncertainty on the estimated benefits from costs savings.

67. In the past, DAMLs submitted under **Option 1** may have led to asset denial outcomes. This is why the asset denial cost has been included to estimate the lost asset denials associated with DAMLs that will now be exempted. However, it is possible that some of these asset denials would still be captured by other routes, such as SARs, so the expected value of lost asset denials modelled are likely to be an over-estimate. Due to a lack of data, it has not been possible to estimate the magnitude of the potential over-estimate.

68. There are certain categories of DAMLs which can be of low monetary value but carry high impact or intelligence value. Therefore, exempting more DAMLs could result in some lost intelligence value, which could reduce asset denial opportunities. However, it is expected that the majority of DAMLs (85 per cent) exempted under the new legislation will instead be reported as SARs. Reporting as a

SAR would still provide the intelligence without causing delays and additional cost associated with DAMLs.

Sensitivity analysis

Number of DAMLs expected to be submitted as SARs

69. There is some uncertainty regarding the expected percentage of DAMLs that will be submitted as SARs under the new measures, which could change the magnitude of the expected benefits. Sensitivity analysis has been conducted to establish the impact on benefits if the percentage of DAMLs submitted as SARs is lower than the estimates presented in the main analysis.

70. For the purposes of sensitivity analysis, it is assumed that the percentage of DAMLs submitted as SARs per year under the new measures is 25 per cent lower than the estimate presented in the main analysis (85 per cent), making it 64 per cent.

71. For the **Option 2**, the net benefits now have a central estimate of **£200 million (PV)** over 10 years. This demonstrates that even if the number of DAMLs submitted as SARs is significantly lower than expected, the benefits would be expected to outweigh the costs.

H. Wider impacts

72. There are no anticipated wider impacts of these proposals.

I. Trade impact

73. There are no anticipated trade or investment implications of the measure.

J. Monitoring and evaluation (PIR if necessary), enforcement principles

74. The proposal is at final stage. There are no new monitoring and evaluation plans as the proposed legislative measures are amendments that current systems can monitor in terms of DAMLs raised.

75. DAML volumes are currently recorded each year by the NCA and this system will not change, so any changes in DAMLs raised as a result of the new measures will be tracked by the current system. A reduction in DAML volumes would be an indicator that the proposed measures are having the intended effect and would therefore be an indicator of success.

76. The NCA SARs Annual Report will be an annual source of data on overall reporting volumes. This publication will not provide a breakdown at the level of detail needed for the impact of specific measures, The NCA SARs Annual Report will provide high level figures on DAML volumes, but not the specific types of transaction these relate to. If it is anticipated that if a further breakdown of DAML volumes is required then this data could be requested directly from the NCA but it would depend on the type of data requested if the Home Office could publish that or not.

77. A post-implementation review will be undertaken in October 2026, about three years after Royal Assent to allow the policy to embed and for routine monitoring and feedback from stakeholders to be used ensure any initial issues are dealt with.

Annexes
Impact Assessment Checklist

Mandatory specific impact test - Statutory Equalities Duties	Complete
Statutory Equalities Duties The proposals aim to make the defence against money laundering suspicious activity reports (DAMLs) system more effective and proportionate, by creating legislative exemptions for submitting DAMLs for certain acts. This aims to reduce the volumes of reports that are ineffective and do not provide utility for law enforcement for asset denial, and thereby reduce the burden on reporters and law enforcement. The reform to the DAML regime is intended to make the system more targeted and proportional, with improved outcomes and benefits for reporters and law enforcement. This is not considered to be advantageous or disadvantageous to any particular group. At present the Home Office are unaware of any possible direct or indirect impacts. There are wider societal benefits from DAML reform, including enabling faster repayment of funds to victims of crime and fewer delayed customer transactions. There is no discrimination to any of the protected groups in relation to the beneficiaries of an improved regime. **The SRO has agreed these summary findings from the Equality Impact Assessment.**	**Yes**

Any test not applied can be deleted except **the Equality Statement**, where the policy lead must provide a paragraph of summary information on this.

The Home Office requires the **Specific Impact Test on the Equality Statement** to have a summary paragraph, stating the main points. **You cannot delete this and it MUST be completed**.

Economic Impact Tests

Business Impact Target The Small Business, Enterprise and Employment Act 2015 (s. 21-23) creates a requirement to assess the economic impacts of qualifying regulatory provisions on the activities of business and civil society organisations. [Better Regulation Framework Manual] The BIT Score is the direct cost to business over the whole reporting period. Generally, this is equal to the EANDCB x 5. The BIT score for the DAML legislation has been calculated as **-£154.8 million**, which represents an overall positive impact on business.	**Yes**

Small and Micro-business Assessment (SaMBA) The SaMBA is a Better Regulation requirement intended to ensure that all new regulatory proposals are designed and implemented so as to mitigate disproportionate burdens. The SaMBA must be applied to all domestic measures that regulate business and civil society organisations, unless they qualify for the fast track. [Better Regulation Framework Manual] These measures are legislative exemptions which are not targeted at small and micro-businesses but will affect them as members of the regulated sector. **Option 2** is a permissive measure and so there is a reasonable expectation that business will adopt these changes only where they lead to net benefits for business. **Option 2** is estimated to have a net benefit for businesses as it is designed to reduce the burden on the regulated sector. This should ensure that there are no disproportionate burdens on small and micro-businesses.	**Yes**