The ABS blog

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How London Became The World's Dirty Money Capital City | A History of Greed and Need

by Jochen Ressel

London – a name that describes a city of culture, history, and economic power. It is one of the world's leading financial and global trade centres. But behind the venerable façades and prestigious addresses of London's financial district lies a darker side: London has long been recognised as a hub for dirty money, often from dubious sources. How did a city once described as 'the cradle of civilisation' become a centre for money laundering and financial crime?

The Rise of London as a Trading Centre

To understand London's role today, we have to look back to the 16th century. As the capital of the expanding British Empire, London grew rapidly and became one of the most important trading centres in the world. With extensive trade came an increasing flood of capital – and in the midst of flourishing markets, the spread of money from questionable sources began.

British involvement in the slave trade and other colonial exploitations brought vast sums to London, all too often disguised by dodgy dealings. A culture emerged that accepted dubious sources of money into the legal economy to preserve the income and wealth – mainly of the elite upper class.

The Industrial Revolution and the Beginning of Modern Financial Markets

With the Industrial Revolution and the development of the modern banking system, London's importance as a global financial centre grew further. Banks and stock exchanges developed, and London's financial institutions began to move large amounts of international capital. During this period, the first signs of a legal framework emerged that allowed dirty money to be channelled into the London financial system.

Particularly in the years following World War I, London became an attractive place for the rich and powerful to protect their wealth. The city became a safe haven for capital from insecure or unstable regions – not to mention the large amount of capital flowing into London's banks, including the money of persecuted Jews during their escape from the occupied and annexed territories of the Third Reich, seeking safety for their assets.

The 'Laundromat' Era: Money Laundering on a Grand Scale

Then came the 1960s and 1970s, when the UK lost its global importance and other world powers took over. An increasing number of former British Empire territories declared independence, which had a direct impact on the wealth flowing into London – it steadily declined and thus posed a threat to the elites spoilt by global wealth. A solution had to be sought and found. It was therefore obvious to utilise the remaining overseas territories, like the Cayman Islands and the British Virgin Islands, to make them attractive for a newly developing capital market – the system of tax avoidance. These tax havens enabled the international elite to hide assets and avoid tax obligations, while the government in London repeatedly claimed it had no influence on the financial legislation of these territories – an assertion that is still being put forward today despite being blatantly false.

In order to allow capital to flow from these overseas territories into the regular London financial market, deregulation of the national capital market was urgently needed – and these funds were vital for the UK, as the 1980s were characterised by major crises. Margaret Hodge, former Labour MP, confirms that this is why Prime Minister Margaret Thatcher is regarded as the mother of deregulation of the UK capital market, enabling money laundering on a large scale – not least to avoid a complete collapse of the national budget.

While the UK continued to present itself as the most loyal ally of the USA, deregulation allowed billions of dollars (or rather roubles) of Russian money, often of illegal origin, to be pumped into the British financial system. This development took place as the British Empire unravelled (e.g., Hong Kong), and the Russian Empire also dissolved in the early 1990s with the breakup of the Soviet Union – leading to the kleptocracy of the oligarchs, who took their share of former state assets. Now, they needed to safely invest their incredible wealth abroad.

Through liberal UK legislation for financial transactions, London became even more attractive for hiding dirty money. The term ‘Russian Laundromat’ became widely known and continued under subsequent Prime Ministers, from Tony Blair and Gordon Brown to David Cameron, while Boris Johnson was Mayor of London.

In addition to deregulation, a network of professional service providers emerged, consisting of globally active auditors, tax advisory firms, and trusts, which manage and invest assets worth billions using London's sophisticated legal and financial infrastructure to disguise the origins of the money. Property in London, particularly in the luxury segment, became a popular way of hiding dirty money. Expensive flats and houses in exclusive neighbourhoods such as Knightsbridge or Mayfair were often bought by shell companies from offshore tax havens, along with yachts and private jets, which never belong to an individual. Separate legal companies are set up to operate these assets – often using Ltd. companies to limit liability. The ownership of these operating companies is so skilfully concealed by the professional network of advisors that the actual owner – the Ultimate Beneficial Owner (UBO) – is nearly impossible to identify.

To understand why this is so hard it is of help to know that no proof is required for company registration in the UK – and especially in London. It is not checked whether the person registering the company even exists, as it has been proven in FT documentaries. Within minutes, a company can be registered online with the Company Register, even if you hide your true identity. Incidentally, registration costs £12 and is confirmed within 24 hours. This is why in London exist addresses where thousands of companies are registered.

Skilfully built structures of commercial enterprises, combined with no identity verification, also prevent the identification of the true owner – let alone the business from which the invested funds come. Sometimes, it is assumed that no one wants to know whether the funds come from illegal commercial transactions, arms dealing, drug trafficking, or human trafficking, as another UK-specific legal structure plays an important role.

The Role of the British Government and the ‘City of London’

A key factor in London's role as a centre of dirty money is the City of London, the historic heart of finance. This autonomous local authority, often referred to as the ‘Square Mile’, has its own legislation and a long tradition of protecting the interests of the financial industry. In many cases, the City has been seen as a place where financial regulation and supervision are less stringent than in other financial centres, and its independence is used as an excuse to resist transparency, compliance regulations, and efforts to tackle money laundering.

It must be explicitly emphasised that the need for money laundering stems from profits made through unspeakable human suffering and heinous crimes against humanity. Therefore, even official decision-makers can be blamed for these crimes if they do not effectively combat money laundering through constructions like these.

The UK government has also played an ambivalent role. On the one hand, laws have been passed to combat money laundering and tax avoidance. On the other hand, there have been repeated accusations that the government turns a blind eye to the enforcement of these laws for political and economic reasons. The economic influence of the financial industry and the UK's dependence on the City make it difficult to enforce effective measures against dirty money.

The Situation Today

To understand the current scale of the problem: according to Transparency International, 84,000 homes in the UK are anonymously owned, most of them luxury estates. The value of UK property bought through suspicious wealth amounts to £6.7 billion, with an additional £1.5 billion in land titles. Another £830 million worth of properties are owned by shell companies in overseas territories – all money that the UK economic system depends on. By comparison, the UK's National Fraud Office has an annual budget of £15 million – an amount that an oligarch likely earns in a few days.

Following the revelations of numerous international financial scandals, including the Panama Papers and the Paradise Papers, London has come under increasing pressure to enforce stricter regulations. In recent years, the UK government has introduced measures to tackle money laundering and tax evasion, including stricter disclosure requirements for foreign property owners. However, questions remain about how seriously these measures will be enforced.

The Russian invasion of Ukraine has turned the tide – though Margaret Hodge, former Labour MP, is convinced that the sanctions on Russian ownership in the UK were both too late and insufficient. But there is no doubt that kleptocracy is now at war with democracy, which is also affecting international financial networks. One result of this was the Economic Crime Act, although its implementation is still an open question. There is no doubt that a second Economic Crime Bill is needed to address a new form of finance – crypto assets. UK regulations in this area, especially through company registrations on the Channel Islands and various overseas territories, are woefully inadequate compared to the EU's 'Markets in Crypto Assets' (MiCA) directive, which was largely modelled on the experienced legislation of EU countries like Malta, a pioneer in combatting kleptocracy in crypto markets, so-called 'scams'. Since the UK is no longer part of the EU, it is under international pressure to implement its own measures for the crypto industry.

There is no doubt that all of this will have far-reaching consequences for London's finances and the UK economy – it will cost big money, as significant revenues for London and the UK government will disappear if Russian money vanishes and the war on money laundering is taken seriously. So far, there is no publicly discussed plan for how to restructure the NHS, the pension system, or the national budget in general when funds lacking, let alone address the numerous other challenges.

The elites have greatly benefited from their connections with kleptocrats and through money laundering – but the population as a whole has not. Addressing the issues described in this blog raises the fundamental question of what kind of society the UK wants to live in.

London's history as a centre of dirty money is deeply rooted in the city's development as a global trading and financial centre. For centuries, capital from dubious sources has flowed through the streets of the British capital, protected by complex legal structures and weak regulation. Despite growing international criticism, London remains a key player in the global network of money laundering – a phenomenon deeply rooted in the city's history and financial system. Whether London can change its reputation in the future depends on how seriously the UK government and the global community are prepared to tackle the roots of the problem. Until then, the city is likely to remain a magnet for dirty money.

The ABS is looking forward to receiving your views and comments!

About the author

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The views expressed in this article are entirely his and in no way reflect the opinions of the ABS.

Sources:

- Transparency International Reports
- Financial Times
- Interviews by Margaret Hodge (former MP Labour Party),
  Kate Beioley and Cat Rutter Pooley (FT Legal Correspondents),
  and Andrew Langton (Aylesford International)