A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are arranged in a way that they appear to converge towards the top of the frame, creating a sense of height and scale. The sky is a clear, bright blue. The overall color palette is dominated by blues and greys.

FCA WHISTLEBLOWERS RESURFACE AFTER 'SILENT PANDEMIC'

Analysis of whistleblowing reports submitted to the FCA since 2019

INTRODUCTION

The FCA regulates the activity of more than 50,000 financial services firms in the UK and receives hundreds of reports of wrongdoing every year, which informs its regulatory efforts and helps it identify actual or potential harm. This could be harm to consumers, to markets, to the UK economy or to wider society.

Funanga submitted Freedom of Information (FOI) requests to the Financial Conduct Authority (FCA) in January 2022 and September 2022 – covering the 36-month period January 2019-August 2022.

KEY FINDINGS FROM THE FOI INCLUDE:

Whistleblowing reports to the FCA declined significantly during the pandemic, down **13%** in 2021 compared to 2019

Reports of wrongdoing have started to rise again in 2022. Reports in 2022 have risen by **6%** compared to the same period in 2021. Anonymous reports have also risen by a massive **53%** in 2022 after a significant decline in 2020 and 2021. This suggests there is a correlation between face-to-face working and seeking anonymity

The most common type of wrongdoing reported to the FCA (more than a third of reports since 2019) is about **fitness and propriety**

It takes a long time for the FCA to conclude a whistleblowing case – for example, of the **108** reports received in June 2021, **only 5 had been resolved** with significant action taken against the company by the end of the year (4.6%)

There is approximately a **~50%** chance of the FCA taking significant action against a company reported to them within 2 years

The FCA whistleblowing team **only has 16 people** – a relatively small team considering the number of reports, the potentially serious allegations therein and the length of investigations

The FCA does not recognise money laundering as a category of whistleblowing reports, which Funanga CEO, Jens Bader, believes has a political motive, to shield the UK from being viewed as a money laundering hotspot

The data suggests that the FCA's efforts to encourage whistleblowing have failed

SUMMARY



The last 36 months have been a petri-dish for increased money-laundering, financial scams, fraud, and other forms of non-compliance. Meanwhile the FCA launched a new whistleblowing directive in 2021 to encourage more reporting of wrongdoing. All logical analysis would conclude whistleblowing cases would spike, yet the opposite is true. Whistle-blowers fell silent in the aftermath of Covid, even if the wrong-doing never went away.

According to the FCA data disclosed to us via two freedom of information requests, formal reports of wrongdoing in the financial sector fell sharply in 2020 and 2021. I find this a little hard to swallow. Many regard the UK as the epicentre of money laundering in Europe, hence the new economic crime and transparency bill being proposed by all-party parliamentary groups. Lawyers, government ministers, economic crime analysts and anti-corruption experts all believe that there are endemic money laundering and fraud issues in the UK finance sector.

This is why I'm deeply sceptical that wrongdoing is in decline across the financial services sector. People and businesses have not changed. Instead, I would argue that the FCA's efforts to encourage whistleblowing have failed. The regulator's sluggishness, opacity, and lack of meaningful action deeply discourage people from reporting wrongdoing. Do people have faith in regulators? I'm not convinced.

I would expect a regulatory body to be clear and direct in its efforts to encourage whistleblowing. We need the FCA to call a spade a spade, but its communications leave a lot of room for interpretation. It does not effectively communicate the progress of whistleblowing cases, nor the outcomes of these cases. It's madness that we don't have the numbers for whistleblowing reports about money laundering. It's rife in the finance sector, and a huge concern for regulators and honest businesses. Perhaps there is a political agenda not to call it out by name and recognise the UK as a money laundering hotspot.

I also think the national shift to remote working has had an impact on reporting numbers, but it's hard to understand why. The offices of many financial firms have been closed intermittently since 2020, which may have contributed to the decline in whistleblowing reports. Fewer people may have been witness to incidents of wrongdoing, and the absence of "watercooler gossip" in the office may also be a determining factor. Remote workers may not be communicating as often or as freely on sensitive subjects like corporate wrongdoing or fraud, maybe because they are pessimistic that reports will be actioned. They could have felt more isolated outside of the office and away from their co-workers.

Jens Bader – CEO at Funanga, a Berlin-based payments business





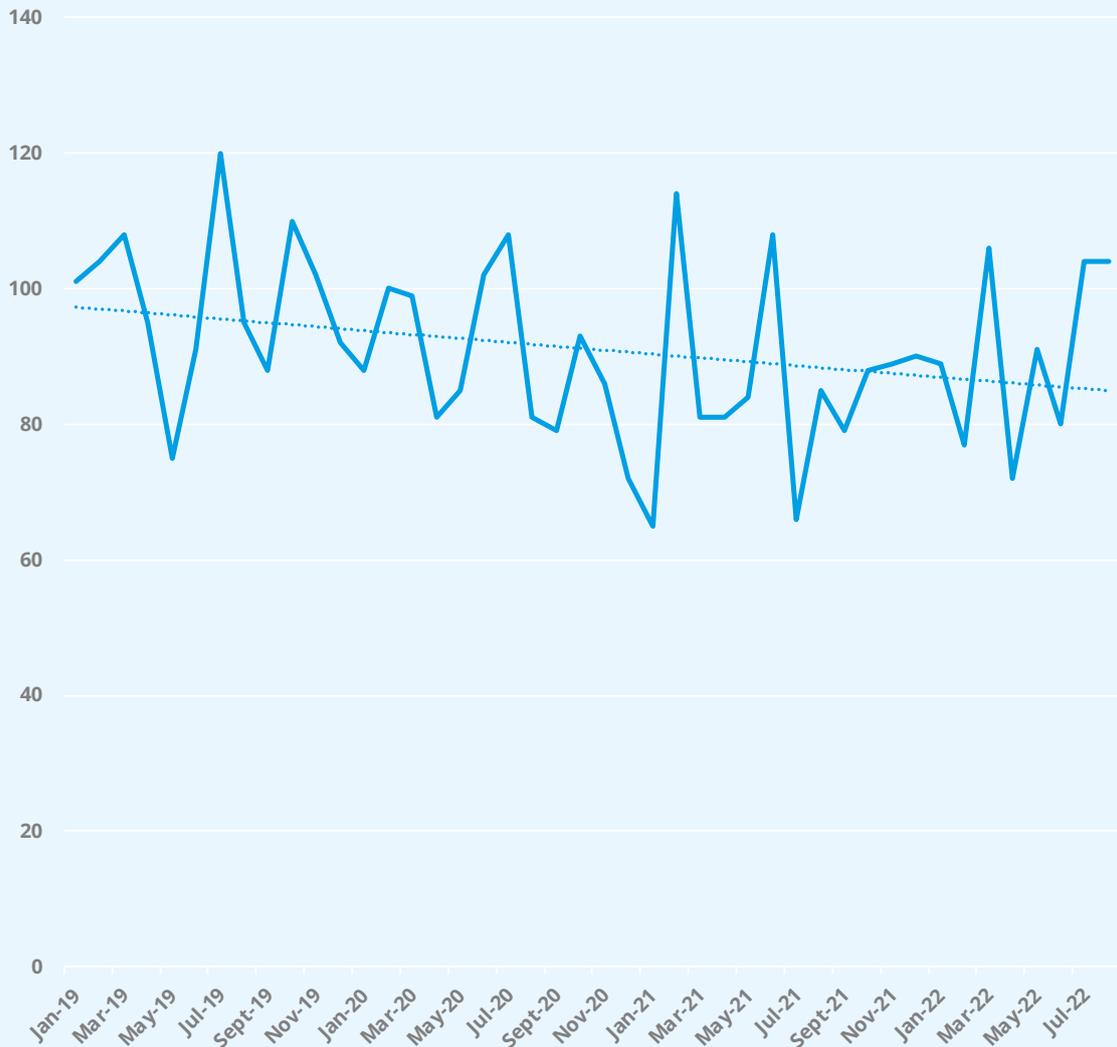
FCA REPORTS OF WRONGDOING DECREASE

The headline figure from our FOI request is that whistleblowing reports to the FCA declined significantly between 2019 and 2021 (down 13%), but are starting to rise again in 2022. Pre-pandemic in 2019, the FCA received nearly 100 whistleblowing reports every month (98) compared to 89 in 2020), 85 in 2021 and 90 in 2022 (between January and August – latest data available).

These numbers are surprisingly low when considering that FCA is the busiest financial regulator in Europe, overseeing the activity of more than 50,000 companies.

July is an interesting example of how report numbers have fluctuated in the last 24 months, demonstrating that there are no consistent peak periods for reporting of this nature. In July 2019, the FCA received 120 reports. In 2021, that number was close to half (just 66).

Number of reports submitted to the FCA regarding wrongdoing or malpractice (whistleblowing)



2

TYPES OF WRONGDOING

The top three types of wrongdoing reported to the FCA since 2019 are:



More than a third of whistleblowing reports in 2019, 2021 and 2021 have been about fitness and propriety – N.B complaints can cite multiple allegations of wrongdoing.

I struggle to understand why compliance is considered a meaningful subcategory of whistleblowing reports, yet money laundering is not. There is an argument that all reports of wrongdoing are also reports of non-compliance in some capacity. It is a very general term that covers all manner of sins. Meanwhile money laundering is so much more than a form of fraud or non-compliance. It is a criminal act and an essential component of organised crime, corruption, drug trafficking, terrorism, tax evasion among other forms of underground economic activity.

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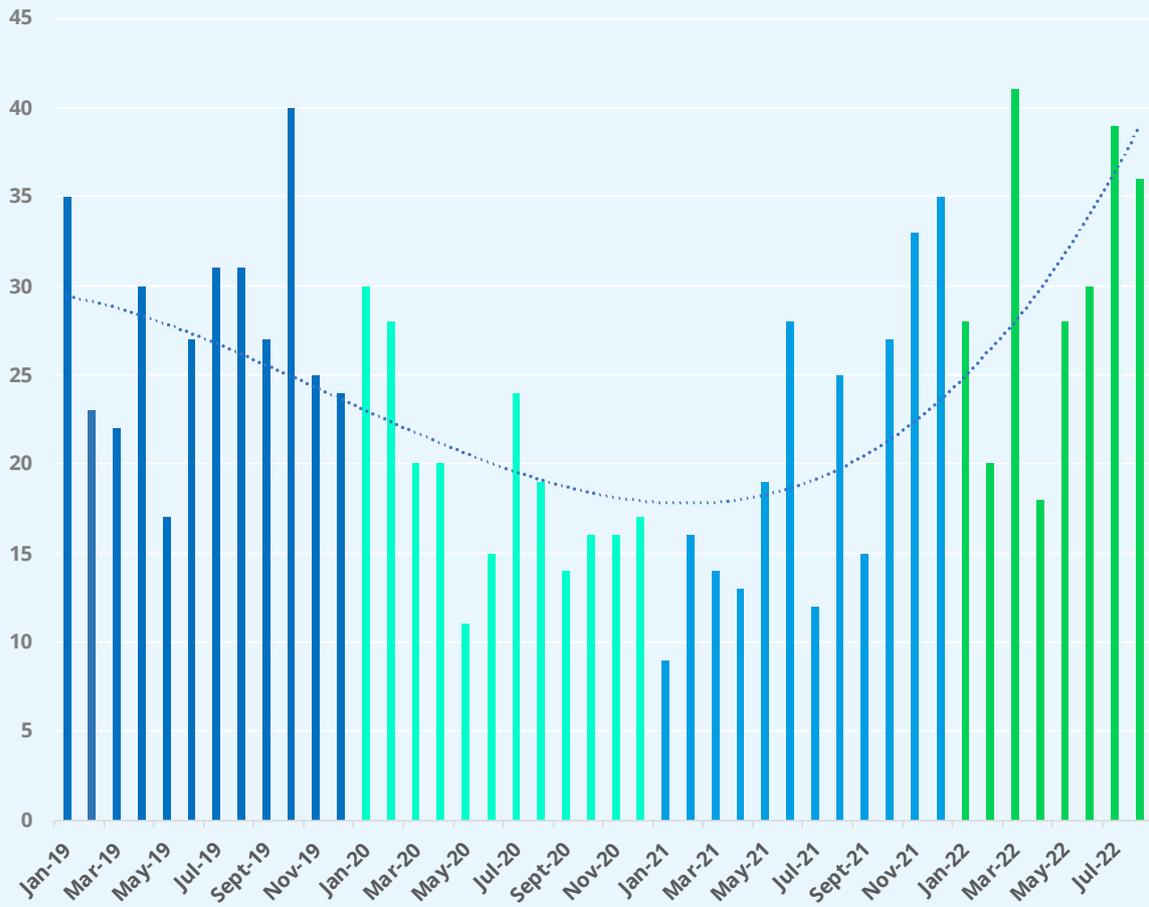
ANONYMOUS REPORTS BUST, THEN BOOM

Interestingly, anonymous reports decreased slightly in 2020 and 2021 before skyrocketing in 2022. This includes the total number of anonymous reports per year in absolute terms, and as a proportion of total reports filed. In 2019, 28% of reports were submitted anonymously. In 2020, that was down to 21% (a 25% decrease). In January 2019, 35 anonymous reports were sent to the FCA. In January 2021, there were only 9 – the lowest number of anonymous report submitted in a single month.

Subsequently in 2022, the number of anonymous reports increased significantly, by 53%. In 2021, there were 20 anonymous reports submitted to the FCA each month on average. In 2022, that figure has risen to 30. March 2022 also represents the highest number of anonymous reports submitted in a single month.

This data suggests correlation between anonymous reporting and remote working. Remote working may have had a positive effect on privacy, emboldening people to speak out about wrongdoing while working from home, without feeling the need to do so anonymously. Now that more people have returned to the office part-time or full-time, whistle-blowers are once again seeking anonymity during the reporting process.

Number of reports submitted anonymously



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ACTION TAKEN

Based on 2019 data, we estimate that there is approximately a 50% chance of the FCA taking significant action against a company reported to them within 2 years. Significant action may include enforcement action or a skilled person review. The FCA's enforcement powers include:

- withdrawing a firm's authorisation
- prohibiting individuals from carrying on regulated activities
- suspending firms and individuals from undertaking regulated activities
- issuing fines against firms and individuals who breach our rules or commit market abuse
- issuing fines against firms breaching competition laws
- making a public announcement when we begin disciplinary action and publishing details of warning, decision and final notices
- applying to the courts for injunctions, restitution orders, winding-up and other insolvency orders
- bringing criminal prosecutions to tackle financial crime, such as insider dealing, unauthorised business and false claims to be FCA authorised
- issuing warnings and alerts about unauthorised firms and individuals and requesting that web hosts deactivate associated websites

Given the range of the FCA's enforcement powers, the complex nature of many whistleblowing reports, and the need for further investigation in many cases, it takes a significant amount of time for the FCA to conclude a whistleblowing case. As of January 2022, only 10% of 2021 reports had concluded with significant action. For context, in January 2019, 101 whistleblowing reports were received and 51 were concluded resulting in significant action being taken. However, of the 108 reports received in June 2021, only 5 had been actioned/concluded (4.6%) by January 2022.

While it is essential that the FCA continues to assess whistleblowing reports forensically, this timeframe is far from ideal. The concern is that such a long delay between a report being filed and action being taken could allow perpetrators of wrongdoing to continue their actions in the interim – potentially causing harm to consumers, to markets, to the UK economy or to wider society (as per the FCA's definition of whistleblowing cases).

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FCA SHORT-STAFFED

According to the FOI, we can reveal that the FCA whistleblowing team only consists of 16 people. Although other members of FCA staff will be involved in the FCA reporting process, this core team remains relatively small considering the number of reports, the potentially serious allegations therein and the length of investigations. It may even help explain the length of the process, since there is not a large team to facilitate speedy procedures.

Because some cases run for months, or even years, a conservative estimate would be that each whistleblowing team member must work on more than a hundred cases each year – assuming multiple employees work on each case. Again, when considering the complexity and potential ramifications of these cases, it's a higher than ideal figure.

See below for the FCA's clarification re. staff numbers.

Our Whistleblowing team is comprised of 16 full-time employees. The dedicated team are trained to debrief and interact directly with whistleblowers, as well as liaising with various departments across the organisation. The team works with whistleblowers to understand their circumstances and protect their identities, which is vital in retaining robust safeguards around the process and in allowing a safe space to speak up.

Beside the number of staff in our dedicated team, it is important to highlight that the assessments of whistleblower intelligence are performed by colleagues across the FCA, primarily in Supervision. Within Supervision we have an additional 2 full-time employees dedicated to coordinate the work that arise from the intelligence provided by whistleblowers.

Due to the number of colleagues that assess whistleblowing cases as part of their role we are unable to put an exact number of colleagues working on whistleblowing cases.

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CONCLUSION

The decline seen in whistleblowing reports sent to the FCA is highly unusual. It contradicts common-sense, industry knowledge, and the FCA's own efforts to increase reporting. The upturn in recent months suggests that it may have been a blip, or a consequence of the pandemic and subsequent lockdowns. What remains crystal clear is that it's vitally important that there are clear paths for everyone to continue to report wrongdoing in the financial sector and beyond. This should be regardless of whether they are remote workers, hybrid workers or in the office.

I think the lack of speed and transparency in the FCA's whistleblowing efforts can cause people to feel disillusioned. It can prevent people from coming forward, and empower companies sweep wrongdoing under the rug.

Most experts agree that the UK is at the centre of European money laundering. Government framework and regulations in the UK are too weak. Almost anyone can register a company for £10 on Companies House and say they are Mickey Mouse. They can open a bank account with a tier one bank and start making dirty money clean. The control mechanisms are not working. Banks do not know who owns their accounts, and they do just enough KYC to keep regulators happy. It takes time and money to crack down on money laundering, and doing so removes customers and removes funds from the balance sheet. It's not in their interest to do so. Nor are regulators keen on admitting there is a problem.

It's right that the new economic crime bill proposes that directors face the consequences of money laundering. Money laundering doesn't just happen. It is orchestrated and the buck has to stop at the top. At best, it is happening under their noses. However, it is more likely that they are sweeping it under the rug, or encouraging it.

"Unless the UK cracks down on money laundering, the value of a UK financial licence will crash. In two years, there's a real chance that European countries no longer accept a UK licence as valid. It won't be worth the paper it's printed on. For a country so dependent on its financial sector for maintaining GDP, that would be a disaster.