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Opinion

The Limitations of Automated Due Diligence for CBI-Applicants, by Burke Files

📅 July 8, 2018 👤 L. Burke Files 💎 automation, burke files, citizenship by investment, due diligence, opinion

This article was contributed by L. Burke Files, President of the International Due Diligence Organization

To a jurisdiction offering citizenship by investment, the risks associated with inadvertently granting citizenship to an “undesirable” are both great and many; They range from domestic and international political embarrassment to severe damage to the value of a nation’s citizenship that can result if other jurisdictions refuse to honor that nation’s passports, or cancel visa-waiver programs.

To fully and adequately invest in the due diligence (DD) investigations performed on applicants is, consequently, paramount. When it comes to the data, everything – and I do mean everything – matters, which means that the adoption of

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automated DD technologies – their cost-efficiency and added value notwithstanding – is an endeavor to be treated with the utmost caution.

The idiosyncrasies of markets make automation difficult

The DD process begins with an understanding of the markets in which the citizenship by investment programs (CIPs) are promoted.

Applicants from Beirut, Iran, Iraq, Syria and many other countries in the Middle East have a common problem; Strife, inability, and corruption have compromised their civil and criminal records infrastructure; The authenticity of records cannot be fully trusted.

In one case, an investigator found a docket entry for a legal case file for an applicant, but when they went to the records archive, the file folder was missing. Hiding records or having them evaporate is not hard; it just requires connections and money.

In much of this world, loyalty is first to the family, then the tribe, then the nation. How could that impact an investigation? One applicant from Beirut was himself a respectable man – but his brother was an SDN and had used his brother’s name on several front companies. How do you assess the risk of granting a man citizenship when he is the brother of a known terrorist?

The next step is a comprehensive questionnaire and application. By design, the process should be challenging. The questionnaire exists both for objective and subjective DD, where the objective portion is the verification of all of the stated claims, place of work, educational degrees, criminal and civil litigation, relatives, references and so on.

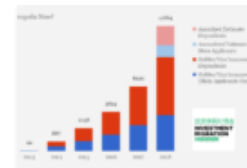
The subjective portion deals with how the questionnaire was filled out:

Was the questionnaire filled out completely? Were instructions followed, or was it deemed as a perfunctory process by the applicant and not given proper attention?

We have found that people whose applications are poorly filled out are typically arrogant and believe themselves worthy because they know who they are. These individuals adopt an attitude of “how dare anyone question me” and, as they can pay the fee, what is the hold-up?

On the other hand, when the application is filled out perfectly, and all of the documents are in order, we have found the applicant to be either a very clever fraudster or an engineer. More often they are engineers.

As investigators begin researching, they quickly find clues as to the nature of the applicant; People with many small lawsuits are generally difficult people. They push people until their antagonist litigates and/or they are easily upset and are themselves quick to litigate.



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References also possess some tells; Clients with references mainly from relatives and lawyers are usually entrepreneurs; Those with references from co-workers are typically corporate executives.

If a DD algorithm can be known, it can be “gamed”

Thorough DD requires the careful consultation of databases (public, private, and subscription-based), as well as deep and extensive searches on the internet. This process will necessarily involve the use of big data sets, and the mining of that data, a process that’s typically automated and performed by software/AI.

While necessary, automated data-mining does not obviate the need for comprehensive human involvement in the DD process. The human touch – speaking to references, neighbors, and former business associates, not disclosed but discovered – is still required.

A fully automated system of nothing but databases will eventually fail the user and the client. If an applicant knows what the metrics are and how the evaluator likes to have questions answered, the applicant can “game” the system and ensure he avoids the red flags that would otherwise single him out for an extended investigation.

Automation can become a big gaping hole in the security framework of any CIP. Automation encouraged by “efficiency drives” in large corporations open the corporations up to fraud. The errors creep in when systems are over-automated as the corrective powers of redundancy have been removed.

Once a rogue actor wises up to the inner machinations of the system, he can manipulate the outcomes of any process or investigation.

The human element and some redundancy is, therefore, necessary to stop fraud, theft, and to catch errors.

Databases don’t contain all the relevant data

Even in the United States, arguably the most digitized nation, databases are to be mistrusted; Not only do they contain errors, their data is tertiary, and all have enormous gaps in information. Not all court records, professional licenses, criminal records, or administrative proceedings are contained in databases.

Each applicant for citizenship must stand on their merits, and those merits must be thoroughly weighed. Proper consideration of an application involves the support of an effective due diligence investigation. ALL candidates applying for economic citizenship should be comprehensively researched and their disclosures tested. There can be no “light touch”. There are only two choices for the investigation: extensive, and very extensive.

In 30 years as an international investigator, I have seen a great deal of fraud and mischief. The idea of automating due diligence never fails to sound the alarm bells

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