



ARTICLE

Financial crime increases in a global crisis

The need for extra vigilance is now

In this jointly written article Henry Duggan, Managing Director at FTI Consulting and Manfred Galdes, Managing Partner at ARQ Group have collaborated to discuss the impact of the COVID-19 pandemic on financial institutions in their battle with financial crime.

Unrelenting pressure from supervisors in the past few years has put financial crime risk at the forefront of the concerns for financial institutions, having to go through painful de-risking processes that have impacted both competitiveness and profitability. As we started the 21st year of this millennium, their attention was still largely focused on this area of risk. Boards continued to dedicate a lot of resources and attention to mitigating their potential exposure to money laundering, terrorism financing, financial sanctions, fraud and anti-bribery and corruption.

A shifting focus

Naturally, the emergence of COVID-19 in recent months has diverted attention. In an unprecedented global situation self-isolation and remote working have become the norm as businesses have adapted to weather the economic consequences of the pandemic. Financial institutions have had to come to grips with this situation internally by bringing into action their business continuity plans and ensuring that they can continue to provide good customer service despite the crisis. The protection of their own front-line staff and the limitation of contagion have had to be addressed, while the responsibility towards both society and shareholders shifted the attention of decision-makers

within the banks onto other priority areas. At the same time, the predictions of the IMF and credit-rating agencies have warranted an increase in attention to credit risk.

With the pandemic crisis shifting the attention of boards elsewhere, a number of other risks have emerged which – if unnoticed - can cause serious long-term damage to financial institutions. The economic uncertainty does not only have a financial dimension, but it also seems to be providing a breeding ground for fraud and financial crime. The full scale of the impact of such unaddressed risks would only emerge in the years to come. The Head of the UK National Fraud Intelligence Bureau recently reiterated such sentiments when he stated “*Fraudsters will use any opportunity they can to take money from innocent people. This includes exploiting tragedies and global emergencies*”¹. Similarly, Europol also highlighted how criminals are exploiting the COVID-19 outbreak², whilst the UK National Crime Agency (“NCA”) warned that organised crime groups are trying to exploit the

- ¹ <https://www.actionfraud.police.uk/alert/coronavirus-related-fraud-reports-increase-by-400-in-march>
- ² <https://www.europol.europa.eu/publications-documents/pandemic-profiteering-how-criminals-exploit-covid-19-crisis>

Coronavirus outbreak in order to target the UK³. It is also interesting to note that the Financial Action Task Force (“FATF”), whilst reiterating many of the same concerns, also warned that criminals and terrorists may seek to exploit weakness in national Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT) systems, while they assume that resources are diverted elsewhere to deal with the current pandemic⁴.

Opportunistic criminals in a crisis

It is not only resources that may be diverted in this difficult time, but the shift of the entire world’s collective attention onto managing the pandemic and its economic repercussions could potentially turn out to be a dangerous vacuum that criminals will take advantage of as they have always done in times of crisis. As fraudsters seek to exploit people’s fears and uncertainties, many new threats related to the COVID-19 outbreak have started to emerge. According to recent reports, more than 500 coronavirus-related scams and over 2,000 phishing attempts by criminals seeking to exploit fears over the pandemic have been reported to UK fraud authorities⁵, with total losses of GBP£1.6 million. These frauds covered a wide spectrum including online shopping scams, ticket fraud, romance fraud, charity fraud and lender loan fraud. Ironically whilst advanced technology has facilitated large numbers of the population working remotely, it may also contribute to increasing the level of fraud risk. As the NCA has highlighted, significant increases in individuals working remotely may also mean that significantly more people will be vulnerable to computer service fraud⁶.

A perfect climate for cyber crime

Where pragmatism and practicality take precedence over caution in contingency planning, opportunities are created for cyber-criminals. The same can be said for fraudsters who have been waiting for the perfect chance to target the weak with donation solicitation, distribution of malware, impersonation of health organisations and theft of personal information. More sophisticated fraudsters are promoting investment scams, devising schemes to appropriate themselves of medical supplies and promoting bogus corona-sprays and antiviral medications.

Interpol’s Operation Pangea alone found 2,000 online links advertising items related to COVID-19. Of these, counterfeit surgical masks were the medical device most commonly sold online, accounting for around 600 cases during the week of action. According to the Interpol website⁷, the seizure of more than 34,000 counterfeit and substandard masks, “corona spray”, “coronavirus packages” or “coronavirus medicine” reveals only the tip of the iceberg regarding this new trend in counterfeiting. The operation, that involved the police, customs and health regulatory authorities from 90 countries, resulted in 121 arrests worldwide and the seizure of potentially dangerous pharmaceuticals worth more than USD 14 million.

Creative money launderers: new techniques

From an AML and CFT perspective, the COVID-19 outbreak has presented financial institutions with additional financial crime risks which need to be considered. The European Banking Authority (“EBA”) recently issued a statement on actions to mitigate financial crime risks in the COVID-19 pandemic. As part of this, the EBA highlighted that as most economies are facing a downturn, financial flows are likely to diminish. However, experience from past crises suggests that in many cases, illicit finance will continue to flow. It was also highlighted that criminals are highly adaptive in their approach to money laundering, and it is therefore highly likely that new techniques and channels of laundering money will emerge.

New and emerging trends

The COVID-19 pandemic has provided a variety of emerging financial crime and fraud risks for individuals and the business community. Post pandemic, we may see new fraud, money laundering and terrorist finance typologies which have adapted to the restrictions placed on individuals and businesses. It is therefore crucially important that financial institutions, individuals and the wider business community are vigilant and fully informed on new and emerging trends.

This also underlies the need for financial institutions to **update their financial crime risk assessments with these new emerging threats**, which can then inform the development of new mitigating controls. It has never been more important for financial institutions to fully understand the financial crime threats and the opportunity should be taken to **undergo a full “health-check” of current**

3 <https://www.nationalcrimeagency.gov.uk/news/national-crime-agency-warn-that-organised-crime-groups-may-try-to-exploit-the-coronavirus-outbreak-to-target-the-uk>

4 <http://www.fatf-gafi.org/publications/fatfgeneral/documents/statement-covid-19.html>

5 <https://www.theguardian.com/world/2020/apr/04/fraudsters-exploiting-covid-19-fears-have-scammed-16m>

6 <https://www.nationalcrimeagency.gov.uk/news/fraud-scams-covid19>

7 <https://www.interpol.int/en/News-and-Events/News/2020/Global-operation-sees-a-rise-in-fake-medical-products-related-to-COVID-19>

systems and controls. This should not only cover areas such as customer related fraud, terrorist financing and money laundering, but also consider cyber risk and internal fraud. Additionally, consideration should be given to the **deployment of advanced technology and data analytics** to identify and monitor threats. As the FATF has indicated, financial institutions may deploy digital onboarding to mitigate some of the risks of COVID-19. Such approaches present additional risks and require expert advice and technology to be successfully implemented.

The power of collaboration

Whilst the current pandemic has presented many new risks and challenges for the banking sector, it also provides an opportunity to embrace new ways of working and mitigate the associated risks. However, in order to be successful this will require everyone to collaborate, share knowledge and work together. It is also crucial that financial institutions work collaboratively with Financial Intelligence Units (“FIU”), law enforcement and other relevant stakeholders to share relevant information on new and emerging trends. This will ensure that information on new financial crime techniques can be used to turn the tide on the battle against fraudsters, organised crime and terrorism.

FTI Consulting is collaborating with ARQ Group to provide an expert range of highly specialised financial crime

3 point plan for financial institutions to combat financial crime

1. Update their financial crime risk assessments with these new emerging threats
2. Undergo a full “health-check” of current systems and controls
3. Deploy advanced technology and data analytics

services to clients, including Anti-Money Laundering, Counter Terrorist Financing and Regulatory Compliance.

For more information on our services please visit the websites or articles below, or contact one of our experts:

www.fticonsulting.com/financial_services

www.arqgroup.com

Article: Managing Anti-Money Laundering and Counter-Terrorism Financing Requirements

Article: The Changing Threat of Financial Crime

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