

# Solution spotlight

## COVID-19 and anti-money laundering

keypoint



The Covid-19 pandemic has generated a number of different government responses, ranging from social assistance and tax relief initiatives to enforced confinement and travel restrictions. Economic and industrial activity has slowed, providing new and unforeseen opportunities for criminals – including terrorists – to generate (and launder) illicit proceeds through the financial system. Financial institutions must refocus on their anti-money laundering (AML) and combatting the financing of terrorism (CFT) monitoring processes to counter these new challenges.

The global Financial Action Task Force (FATF) issued a paper on 20 May 2020 highlighting:

- An increase in COVID-19-related frauds
- Limitations in AML functions, impacting implementation
- Attempts by criminals to find ways to bypass due diligence measures and exploit increased online activities
- Emerging vulnerabilities, such as the exploitation of economic stimulus measures or new cash-intensive, high-liquidity business lines such as fake on-line charities

### COVID-19 threats

As financial behaviour changes with transactions soaring on often unfamiliar platforms:

#### Increased fraud

- Impersonation of government, medical and social officials
- Counterfeiting of goods, including essential goods and services
- Fundraising for fake charities
- On-line fundraising scams

#### Cyber crime

- Fraudulent investment proposals
- Phishing attacks
- Malware installations
- Ransomware

#### Impact on other predicate crimes

- Human trafficking and exploitation of workers
- Online exploitation of children
- Organised property crimes

#### Unregulated financial services

#### Potential ML/TF vulnerabilities

According to FATF, financial behaviours and patterns have changed significantly due to COVID-19. Customers are increasingly transacting remotely. Over the medium to long-term, an economic downturn could further impact financial activities and result in individuals seeking financing outside the formal economy.

Most reported ML/TF risks up to this point have been related to proceeds generated from predicate offences. Looking into the future, potential ML/TF risks include criminals and terrorists:

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- Finding ways to bypass CDD measures by exploiting temporary changes in internal controls due to remote working situations
- Misusing online financial services and virtual assets
- Exploiting economic stimulus measures schemes
- Creating opportunities due to increased use of unregulated financial sector
- Misusing and misappropriating domestic and international financial aid and emergency funding by avoiding standard procurement procedures
- Moving into new, cash-intensive and high-liquidity lines of business in developing countries by fraudulently raising funds online and laundering them
- Analysing new trends in local and regional environments
- Reviewing risk-based approaches to address new risks
- Including new scenarios in automated systems' transaction alerts
- Considering COVID-19-related medical businesses as high risk
- Keenly monitoring on-line banking activities and digital payment activities
- Retuning fraud management systems to deal with new challenges
- Including new typologies in AML/CFT awareness training
- Updating AML/CFT policies and procedures to take COVID-19 into account

## Potential COVID-19 responses

Key decision makers in all industries – not just financial services – need to consider how they can best strengthen their AML/CFT policies and procedures to respond to a new threat universe. The Central Bank of Bahrain issued a guidance paper in May 2020 highlighting threats and vulnerabilities arising out of COVID-19 and potential responses, including:

- Risk-based approach
- Transaction monitoring
- Suspicious transaction reporting (STR)
- Digital onboarding (non-face-to-face)
- Awareness

Some key steps for all financial institutions will include:

- Reviewing the impact of emerging threats
- Assessing steps to strengthen AML/CFT compliance

## Keypoint's FRC team

Keypoint's financial regulatory compliance (FRC) team includes seasoned financial services professionals with extensive experience in the financial crime, compliance, AML and risk management fields. Our team use their deep insight to develop practical approaches that help clients to comply with regulatory obligations while creating value by providing efficient and cost-effective solutions.

Our FRC solutions are focused on four key areas:

- Compliance
- Anti-money laundering
- FATCA and CRS
- Corporate governance

For more information on how our FRC team can help you deal with the money laundering and terrorism financing threats posed by COVID-19, please contact us.



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