COVID-19 IMPACT ASSESSMENT: RISK TYPOLOGIES AND MITIGATION STRATEGIES

PLENITUDE

This is the first in a set of three blogs that look at the lasting impacts of COVID-19 on financial crime risk management and some of the key considerations for firms faced with the 'new normal'.

COVID-19 has impacted not just customer behaviour and the way they interact with financial institutions, but also transformed the financial crime risk that they may present. Research by numerous industry bodies indicates that the methods and typologies used by bad actors are changing – notable examples include:

- **Fraud** – increase in fraudulent activity including COVID-19 relief funds, identity fraud and investment fraud.
- **Cyber** – the use of cyber-attacks involving malware (such as ransomware) to steal personal assets and data from individuals and firms.
- **Money mules** – increase in transactions being routed through non-traditional means, providing an opportunity for money mules.
- **Scams** – imposters preying on vulnerabilities arising from the pandemic to illegally obtain personal data and/or access to assets.
- **Corruption** – previously lower risk industries brought into focus - e.g. through PPE procurements process scandals.
- **Insider dealing** – new ways of working and trading, exploiting potential vulnerabilities in traditional transaction and surveillance controls.

Given the ongoing evolution in both customer and criminal behaviour, adapting to these changes can represent a significant impact on any financial institution. Firms should therefore adopt a holistic and step-by-step approach to managing their risks:

1. Firstly, as the pandemic's long-term implications are felt across the financial services industry and its customers, firms will need to consider factoring new typologies and trends into their enterprise-wide risk assessments (EWRAs), if they were not doing this previously. In line with regulatory expectations to identify and mitigate emerging risks, increases in a firm's inherent risk may require a reassessment of the controls in place to evaluate whether these are still adequate. Further:
   a. Firms could consider temporarily undertaking more frequent EWRAs to ensure changes in risk are identified early or conduct targeted risk assessments aimed at specific vulnerabilities.
   b. Firms should consider adjusting their risk appetite or monitoring more specific measures depending on their risk profile, strategy and business model.

2. Another implication for a firm to consider is whether its risk metrics are up-to-date and fit for purpose, considering additional COVID-19 stressors and operational impacts of the pandemic on the financial crime framework. Firms could consider refining key performance indicators and key risk indicators based on any newly identified risk exposure and implementing more focused reporting dashboards if necessary.
3. Finally, firms should consider their approach to monitoring a customer's transactional activity. Notably:
   a. Individual transactional behaviour has changed as a result of government lockdowns and may involve far fewer cash transactions than usual. By consequence, corporate transactional behaviour such as sourcing locations and overall transaction values may also have changed, most notably impacting cash-intensive businesses and Trade Finance transactions.
   b. A firm seeking to demonstrate an effective risk-based approach to regulators will need to review whether their existing transaction monitoring scenarios and thresholds are fit for purpose and adjust where necessary. In addition, new scenarios may need to be introduced – such as for industries experiencing an increase in financial crime.

Pro-actively implementing a holistic strategy to manage the long-term impact of COVID-19 on financial crime risk will ensure firms can both minimise reputational risk and remain agile enough to adapt to emerging and developing risk typologies – while simultaneously remaining compliant with parallel legislation such as Treating Customers Fairly (TCF).

Plenitude has supported a number of firms, big and small, in implementing financial crime transformation programmes, including robust enhancements of financial crime risk assessment methodologies and risk appetite statements, implementation of financial crime management information and detailed assessments of transaction monitoring capabilities. If you would like to have a chat on what steps might be most appropriate for your firm, drop us an email at enquiries@plenitudeconsulting.com.

The next instalment of this blog series will look at how technology could assist firms in overcoming some of the challenges posed by a changing operational landscape.

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