



## COVID-19 Impact Assessment: Changes in Consumer Behaviour and Impacts on FCC

*This is the third and final piece in the COVID-19 impact assessment series, which looks at how the pandemic has contributed towards a change in how people interact with the financial services industry, and key financial crime compliance considerations for firms as we emerge from lockdown restrictions and into a new normal.*

For over a year the pandemic has led to major shifts in lifestyle, which have impacted many of us in the way we work, socialise and travel. One of the most significant shifts resulting from these changes has been the profound impact the pandemic has had on the interaction model between financial services firms, their customers, and employees. Microsoft's CEO noted that '[Two years of digital transformation](#)' took place in two months, as firms sought to respond swiftly. As UK government restrictions are lifted, we examine some of the key considerations for firms as the UK economy begins to reopen in the face of ethical, environmental, and societal shifts in thinking that suggest that some lockdown-based behaviours may be here to stay.

Executive summary of key considerations for firms moving forward:

- Firms need to closely monitor new and emerging risk typologies and continue to assess developments in both customer and criminal behaviour to adapt to new threats and adopt adequate operational responses.
- Firms must ensure continued compliance with GDPR and that effective controls are in place to ensure a secure data environment when facilitating remote working, particularly regarding the transfer of data between jurisdictions that have different data protection requirements.
- Many industries are seeing shifts in product and cash utilisation, with digital applications being favoured over paper, virtual operations reducing the impact on the climate and virtual transactions becoming the norm.
- Firms should closely monitor cash usage as restrictions are lifted, considering evidence that although cash usage is in decline, the total value of banknotes in circulation has increased as more people hold cash.
- An effective data repository can ensure firms comply with data retention requirements and are easily able to respond to information requests from regulators and financial intelligence units (FIUs).
- Cloud based storage solutions are cost effective and scalable, though consideration needs to be given to a jurisdiction's acceptance of the technology, third party security risks and concerns around where data is physically stored.
- Continued investment in digital transformation is recommended to enhance the customer journey and assist firms in continuing to meet obligations in the event of further disruption.

## Consumer behaviours change

[National crime statistics](#) for both England and Wales in 2020 show the significant social changes brought about by the pandemic. Both countries saw a drop in physical crimes such as burglary (theft offences fell by 21%) but rises in most types of computer misuse and fraud (notably a 61% increase in “remote banking” fraud and 27% increase in “online shopping and auctions” fraud). These figures give an indication as to the change in focus of criminals, though whether these trends continue following the lifting of lockdown remains to be seen. As we transition back into more pre-pandemic behaviours, firms will need to continue to monitor new and emerging risk typologies and continue to assess developments in both consumer and criminal behaviour to adapt to new threats and adopt adequate operational responses.

Since the start of the pandemic, consumer spending and behaviour has shifted towards embracing e-commerce and use of digital finance, and it will be interesting to see whether this trend continues as firms continue to invest in digitalisation. The [Bank of England](#) have outlined that people are spending less cash, but the total value of banknotes in circulation has increased as people appear to choose to hold more cash. This trend should be monitored closely as restrictions are lifted. A look at the mortgage industry, as an example gives an indication of some of the key trends that have emerged and that may continue post pandemic. Noticeable trends include digital applications favoured over paper, consumers requiring utilise digital information sources to become more informed on product choices and virtual transactions becoming the norm. All of this supported by a shift towards more automation and digitalisation of processes.

## Operational impacts

Almost overnight, operational teams were displaced and working from home, which meant that Compliance cultures needed to adapt quickly to changes in ways of working. Risks that employers suddenly found themselves increasingly exposed to include the use of unsecure networks, phishing emails, social network hacks and susceptibility to data security breaches. There have also been instances of security breaches involving the improper disposal of sensitive paper-based materials at homes.

The pandemic has meant that conducting on-site visits as part of due diligence measures have been prohibited, and many firms have had problems in verifying the identity of individuals due to the need to perform remote onboarding. It is unlikely that a full-scale return to normality will follow immediately after restrictions are lifted, with firms needing to be cognisant of customer reluctance or inability to return to normal, as well as increasing acceptance that virtual operations minimise the impact on the climate. Indeed, firms that were more advanced in digital maturity fared best during the pandemic and owing to concerns about the risks of a return to restrictions in the event of a deterioration in circumstances, firms should continue to prioritise digitisation and investment in technology for the benefit of both customers and employees.


## Data and security

As [FATF](#) and industry bodies call for enhanced collaboration between FIUs, regulators and firms, this will need to be met with better access to, and storage of data. The overall volume of raw data is increasing every day, and this is not always effectively harnessed due to legacy systems working in silos. After shifts in customer behaviour and the resulting data challenges in utilising traditional methods of appraising risk and identifying unusual and suspicious activity, firms will need to readjust to what is likely to be a transition period as customers slowly begin to reassimilate with pre-pandemic behaviours.

An effective data strategy includes having a well-managed data repository for efficient retrieval. Cloud based storage platforms are offering firms cost-effective and scalable solutions as opposed to traditional in-house IT data strategies. Any firm seeking to implement a Cloud-based storage solution should consider a jurisdictions acceptance of the technology, security risks around the storage of data by third parties and data sovereignty concerns around where data is physically stored.

## Concluding thoughts

As we slowly emerge from lockdown restrictions and adjust to a new form of normal, it is likely that we will witness a period of transition where old and new behaviours merge into a new hybrid way of living. This will impact not only on the way we work but in the way we continue to interact with the financial services industry, and firms should continue to monitor developments and seek to identify emerging risks and threats. Indeed, recent studies indicate that most workers are unwilling to return to pre-pandemic ways, whilst experts have mixed opinions on the ‘new normal’ and COVID-19’s long-term impact on society. FATF’s call for coordinated responses across the financial service industry to identify and manage new risks as they develop should continue so that firms are best prepared for the potential challenges that lay ahead.



We hope you have enjoyed this COVID-19 impact assessment series. To discuss further how we can assist your firm in shaping your next steps in your FCC transformation journey, drop us an email at [enquiries@plenitudeconsulting.com](mailto:enquiries@plenitudeconsulting.com)

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