



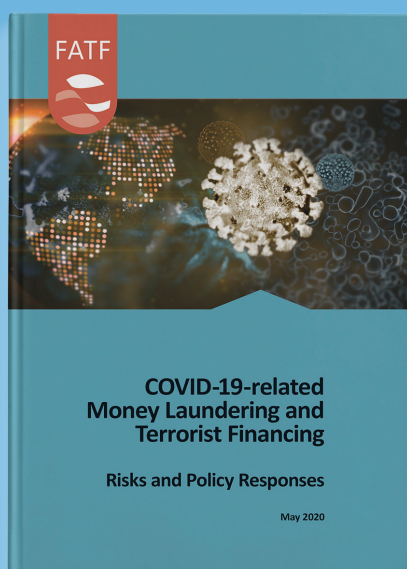
الائتلاف الإسلامي العسكري لمحاربة الإرهاب
ISLAMIC MILITARY COUNTER TERRORISM COALITION



International Reports

15

COVID-19-RELATED MONEY LAUNDERING AND TERRORIST FINANCING RISKS AND POLICY RESPONSES



July 2020

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Countering Terrorism Financing in COVID-19 Pandemic

The outbreak of the Coronavirus Pandemic (COVID-19) has brought about unprecedented widespread human suffering and global challenges, triggering utter confusion at all political, social, economic, religious and financial levels across the entire globe; many economies such as USA, China, UK, Germany, France, Italy, Japan and many others to mention but a few have sustained serious setbacks. In the same vein, capital and stock markets have dramatically plummeted to unprecedented levels, and oil prices have likewise plunged into an abyss of loss. This report, prepared by the Financial Action Task Force (FATF) in May 2020, attempts to identify challenges, good practices and policy responses to threats of money laundering, terrorist financing, and vulnerabilities emerging from COVID-19 crisis. The focus of this report relates to three broad themes:

- New threats and vulnerabilities stemming from the crimes related to COVID-19 pandemic and the effects of risks triggered by money laundering and terrorist financing.
- The current impact of COVID-19 pandemic on the efforts of governments and the private sector to combat money laundering and terrorist financing.
- The proposed Anti-Money Laundering and Countering Financing Terrorism (AML/CFT) policy responses to support the rapid and effective implementation of response measures to COVID 19 crisis, while also managing the associated risks and new vulnerabilities including economic and financial incentives, financial and rescue packages for companies, individuals and charitable activities.

Key Findings

The report has produced a set of seminal conclusions, including the following:

- ◆ The increase in crimes related to COVID-19 pandemic, such as fraud, cybercrime, and misdirection in the exploitation of government funds or international financial aid creates new sources of revenues for illicit actors.
- ◆ Actions to contain COVID-19 negatively affect the criminal economy, forcing criminals to change their behaviors to other manifestations of profit-driven illegal conduct.
- ◆ COVID-19 pandemic affects the capacity of both the public and private sectors to implement AML/CFT obligations, in terms of supervision, regulation and policy reform to report suspicious transactions and international cooperation.
- ◆ These threats and vulnerabilities bring about emerging money laundering (ML) and terrorist financing (TF) risks, and such risks could result in the following:
 - Criminals find ways to bypass, circumvent and sidestep preventive measures related to customers.
 - Increased misuse of online financial services and virtual assets to transfer and conceal illicit funds.
 - Criminals take advantage of government measures for economic stimulus and insolvency plans designed to help people impacted by COVID-19 pandemic who conceal their illicit funds.
 - Misuse of domestic and international financial aid earmarked for financing emergency cases of COVID-19 pandemic.

Effective implementation of COVID-19 pandemic response measures can help manage new risks and vulnerabilities that arise, by:

- Local cooperation and coordination to assess the impact of COVID-19 pandemic on AML/CFT laws.
- Enhancing communication with the private sector.
- Encouraging preventive measures to verify customer identity.
- Providing support for electronic and digital payment options.

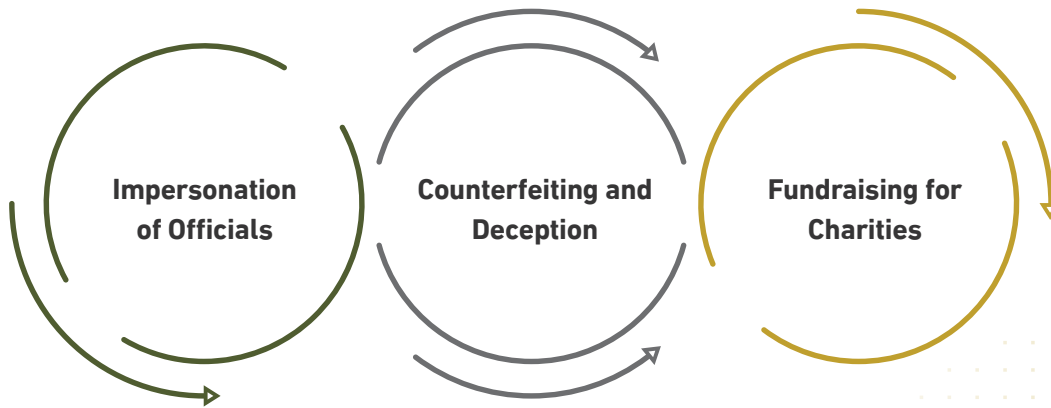
Development of AML/CFT Methods

This report reveals that COVID-19 pandemic generated various government responses across the world countries according to the magnitude of their impact, including social assistance, tax relief initiatives, forced home confinement measures and travel restrictions. These measures may inadvertently provide new opportunities for criminals and terrorists to earn and launder illicit proceeds. The evolving risk manifestations are based on the following general assumptions:

- ◆ Governments, companies and individuals are constantly going to pursue their businesses online and to enable remote work. Individuals constantly under “lockdown” or other movement restriction measures are also increasingly turning to online platforms for social interaction.
- ◆ The closure of many companies due to “lockdown and quarantine” measures, and other restrictions on business and travel, has led to high unemployment and layoffs, hence the loss of government revenues, and the general economic recession that will affect the financial and social behavior of companies and individuals.

Increased Fraud, Forgery and Counterfeit

Experts and researchers highlight that reports made by FATF members, observers, and open sources reveal that criminals have attempted to take advantage of the COVID-19 pandemic by increasing fraudulent activities, including the following:



- ◆ **Impersonation of Officials:** In such cases, criminals contact individuals (directly, by e-mail or phone) and impersonate government officials with the intention of obtaining personal bank information or cash.
- ◆ **Counterfeiting and Deception:** Forging essential products necessary to deal with COVID-19. Given the high demand for such materials, there is a significant increase in online purchase scams that includes some medical supplies, personal protective equipment and pharmaceutical products.
- ◆ **Fundraising for Charities:** Criminals who pretend to represent international organizations or charities send e-mail messages requesting donations for campaigns they claim are for research purposes related to the COVID-19 pandemic, and recipients of such e-mail messages are then directed to provide credit card information, making them vulnerable to fraud.

Cyber Crimes

This report highlights heavily on cybercrime and related frauds; it reveals that there is a sharp rise in social engineering attacks, which means the psychological manipulation of a person to deceive them and obtain their sensitive information, specifically using phishing e-mail messages and mobile messages, by randomly

chosen mails and mobile phone numbers. As such, the victim is lured and decoyed into fraudulent websites.

- ◆ **E-mail and SMS Phishing Attacks:** Criminals are taking advantage of concerns about COVID-19 to insert malware on personal computers or mobile phones.
- ◆ **Business E-mail Compromise Scams:** Amidst a sharp global surge in remote work, cyber criminals take advantage of security business network vulnerabilities to access contact information and customer remittances.
- ◆ **Ransomware Attacks:** Criminals use different ways to insert ransomware on personal computers and mobile phones. Some FATF members have reported that cyber criminals use malicious websites and mobile applications that appear to share information related to COVID-19 pandemic to gain access and lock victims' devices and force them to make the amount set fully paid.
- ◆ **Human Trafficking and Exploitation of Workers:** Criminals exploit COVID-19 pandemic to carry out illicit activities, such as the exploitation of workers and human trafficking because of the suspension of activities of the relevant governmental and international agencies in detecting cases of human trafficking.

- ◆ **Online Child Exploitation:** Reports by some FATF members indicate a rise in the production and distribution of child exploitation materials online; as schools are closed, children use the internet heavily during “lockdown” times, which could lead to increased exploitation.

Money Laundering Vulnerabilities

• Changing Financial Behaviors

The report reveals that significant changes have occurred to financial behaviors and patterns in light of COVID-19; many offices and banking branches were closed due to “lockdown and quarantine” procedures and actions. Therefore, many customers conduct more online transactions. As such, in the medium to long term the economic downturn can further lead to a change to financial activities, forcing individuals to seek financing methods of non-formal economy. Among these financial behaviors that have emerged are the following:

- ◆ **Increased Remote Transactions:** FATF members reported that some banks have closed their branches, reduced their working hours, or restricted services available, including customer service and identity verification, as the report shows that some financial institutions may not be equipped to verify the identity of customers remotely.
- ◆ **Unfamiliarity with Online Banking Platforms:** Specific population segments such as the elderly, low-income groups and remote communities may be less familiar with using online banking platforms, and are therefore more vulnerable to fraud.
- ◆ **Unorganized Financial Services:** Given the links with previous economic downturns, it is noted that those with financing needs may seek out non-traditional or unlicensed lenders, which may include criminal

groups in the event of a prolonged economic recession.

• Increased Risks of Corruption

The risk of corruption related to the management of government funds and international financial assistance earmarked to combat the effects of COVID-19 pandemic increases, as many governments provide incentive funds to mitigate the economic impact associated with the effects of COVID-19 pandemic, and criminals may attempt to defraud or mislead these funds, as well as corruption can have negative effects in international financial aid channels.

- ◆ **Exploiting Stimulus Actions:** The report made by FATF reveal that a small percentage of economic support directed to businesses and individuals may bring about potential fraud risks, and consequent ML activities. Therefore, some FATF recommendations include taking steps to reduce risks, such as disbursing aid to people and businesses via existing government accounts for receiving social benefits.
- ◆ **International Financial Assistance and Increased Risks of Corruption:** Many countries have expressed an immediate and pressing need for emergency financial assistance to respond to COVID-19. As such, international financial institutions warn that there is a risk that emergency financial aid provided to countries can be misappropriated by corrupt officials, particularly in countries where the rule of law is poor with glaringly poor transparency and accountability measures. The report also reveals that government contracts to purchase large amounts of COVID-19-related medical supplies provide notorious opportunities for corruption and the misappropriation of public funds.

• **Increased Financial Volatility**

Recent financial and economic volatility related to COVID-19 reflects uncertainties. In this context, opportunistic criminals may shift their infamous activities to exploit new vulnerabilities, which can be manifested in the financial system, including:

- ◆ **Economic Downturn:** Criminals seek to invest in troubled real estate properties or companies to launder their money and conceal their illicit revenues.
- ◆ **Increased Financial and Monetary Transactions:** The recent volatility-driven fluctuations in the values of securities led to many liquidations of their financial portfolios, the transfer of large amounts of money electronically, and also led to an increase in the withdrawal of banknotes. Equally important, the report indicates that an increase in the use of banknotes can conceal money laundering and financing terrorist activities in the following ways:
 - When the financial markets stabilize, large moves to re-deposit funds can provide cover for money-laundering.
 - Banknotes can be used to purchase hard-to-track secure financial assets such as gold.
 - Increased risks of withdrawals, as criminals gain access to the bank account of people and withdraw their money through ATMs.
 - Clients involved in suspicious withdrawals or cash transactions refer to the purpose of combating “COVID-19”, which conceal illegal activities.

After providing a detailed description of the risks brought about by terrorists exploiting the exceptional humanitarian conditions that the world is going through due to COVID-19 pandemic to implement their terrorist plans, the report addresses a large

number of issues and experiences related to AML/CFT experienced by the FATF members. The report produces a seminal summary of the impact of COVID-19 pandemic on the systems currently in place in AML/CFT, and the risks and potential responses of terrorist groups to the actions of IFUs, such as:

- ◆ Criminals find ways to bypass, circumvent and sidestep counter-terrorism measures by using remote work to conceal and launder money.
- ◆ Increased misuse of online financial services and virtual (fake) assets to transfer and conceal illicit funds.
- ◆ Misuse of domestic financial aid included in economic stimulus measures and international aid by avoiding standard procurement procedures, leading to increased corruption and consequent money laundering risks.
- ◆ Criminals and terrorists exploit COVID-19 by claiming that they represent charities to raise funds online.

COVID-19 IMPACT ON CFT

COVID-19 pandemic impacts the capacities of governments and the private sector to implement AML/CFT obligations due to the lockdown and social quarantine measures that have been implemented to contain COVID-19 pandemic, as many government and private sector employees are now working in the area of AML/CFT remotely. COVID-19 pandemic has impacted the following main areas:

- ◆ **Supervision:** The majority of FATF members indicate that inspections at AML/CFT websites have been postponed or replaced with remote searches, including the use of video conferencing and webinars.

- ◆ **Regulation and Policy Reform:** Many national and international policy departments have put into action business continuity plans, with most or all employees operating remotely, or redeploying and redistributing them in response to the joint unit of the COVID-19 pandemic. This has led to a major breakdown in the AM/CFT policy.
- ◆ **Suspicious Transaction Reports:** Banks and financial entities continue to submit suspicious transaction reports to FIUs, and this has encountered delays in receiving and processing reports, as some entities still rely on paper reporting systems, or have insufficient database software programs.
- ◆ **Financial Intelligence Unit Analysis:** The FIUs of FATF members operate remotely within the limits permitted by IT and security systems. Some reports reveal that some FIUs in some countries with low capabilities have reduced largely their operations or caused them to come to a complete halt.
- ◆ **International Cooperation:** Several reports indicate that international cooperation has been affected by the COVID-19 pandemic. This has brought about a delay in joint cooperation and was exacerbated over time due to the remote work of the FIUs employees, which negatively affects formal cooperation among them, such as mutual legal assistance, extradition due to travel restrictions and a decrease or suspension of technical assistance against AML/CFT.
- ◆ **Law Enforcement Authorities:** The information in the report indicates that law enforcement authorities in FATF members

continue to prioritize AML/CFT efforts with a heavy focus on crimes stemming from COVID-19. Some reports suggest that the transfer of law enforcement and security resources to COVID-19 responses in highly dangerous and under-resourced countries may entice terrorists and terrorist financiers in their activities.

- ◆ **Private Sector:** It was noted that financial institutions have begun to develop plans for the continuity of their business in response to COVID-19; however, some banks may close their branches and face greater challenges with their employees and customers if the current economic situation further worsens and becomes more deteriorated; there is a risk that financial institutions will re-prioritize their efforts related to AML/CFT and to focus on broader precautionary and stability measures.

Potential Responses

This section of the report maps out a set of actions that jurisdictions take in response to the challenges arising from COVID-19 pandemic, calling on FATF member states to consider these actions to better deal with and adapt to new risks, especially with low operational capacity, and action stimulating charitable activity and economic and financial incentives, financial relief packages, while also providing practical examples of the responses taken by some authorities. The report calls for improving the level of cooperation and coordination, in addition to enhancing communication with the private sector through a proactive initiative to implement AML/CFT. There are telling examples of some countries working with the Non-Profit Organizations (NPOs) sector to ensure that the legitimate activity of these organizations is not

delayed or disrupted, as some governments have designated formal channels for donations to respond to COVID-19 pandemic.

In this report, the researchers devote an entire section to discussing actions related to obtaining adequate 'Know-Your-Customer' (KYC) procedures by encouraging the full use of Customer Due Diligence (CDD) which is a process in which customer-related information is collected, and evaluated in search of any potential risk or AML/CFT activities.

Supporting Electronic Payment Options

Experts conducting this report encourage the full use of electronic and digital channels for constant payment services and reduce fees for local money transfers between banks to encourage the use of electronic payment methods to maintain social distancing to limit the spread of COVID-19.

Understanding New Risks

- ◆ The authorities closely work in tandem with the relevant partners, locally and internationally to better understand and monitor the evolution of the risk environment, which requires communication with a wide range of stakeholders in this area.
- ◆ A number of countries have created special task forces to deal with COVID-19 pandemic-related fraud.
- ◆ FIUs develop strategic analyses based on reviewing the data available, adapting and analyzing the priorities of suspicious transaction.

Control Requirements for Economic Relief Actions

- ◆ Authorities provide clear instructions on how to implement AML/CFT requirements in the context of economic relief packages of actions for individuals and companies.
- ◆ Ensuring that some countries receiving economic incentives by international organizations such as the International Monetary Fund (IMF) receive additional guidance to implement target AML/CFT actions to ensure that these funds are not transferred for other purposes.
- ◆ All countries should direct the agencies involved in detecting suspicious financial transactions, especially in the context of funding and emergency aid flows for COVID-19 pandemic from international organizations and other donors.

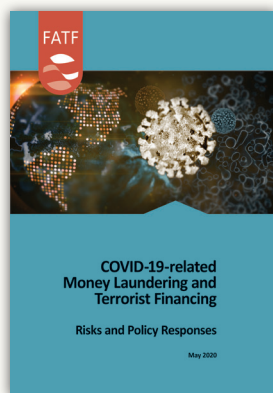
Continued International Cooperation

FIUs should keep the Egmont Group informed of any developments that may affect the area of international cooperation and monitor the impact of COVID-19 pandemic on the private sector. The statement of the chair of the FATF has been added as an appendix to the report, focusing on recommendations and actions to be implemented by the FATF members in the fight against illicit financing, and commitment to the role assigned to each country in combating COVID-19 pandemic.

Conclusions

After providing a set of data on the risks of AML/CFT crimes related to COVID-19 pandemic and the actions currently in place by FATF members, the report concludes with the responses proposed by the experts who supervised the preparation of this report, which provide an approach to manage risks in accordance with FATF standards and in response to the threats arising from the unprecedented global health crisis, COVID-19 presents new financial behaviors and patterns that have emerged as a result of COVID-19 pandemic, as most financial transactions are carried out remotely or online.

The report warns international financial institutions of the risk of corrupt officials who can abuse the emergency financial assistance provided to their countries, especially in countries where the rule of law and transparency and accountability measures are notoriously poor. The report also turns the spotlight on the fact that a percentage of economic support directed to companies and individuals may represent potential fraud risks that may lead to AML/CFT activities, as criminals attempt to take advantage of the COVID-19 pandemic by increasing fraudulent activities and diverting their activities to exploit new vulnerabilities cropping up in the financial system, such as impersonation of officials, investment fraud, electronic crime, human trafficking and burglary.



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May 2020

The Financial Action Task Force (FATF)

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