



OF FINANCIAL INTELLIGENCE UNITS

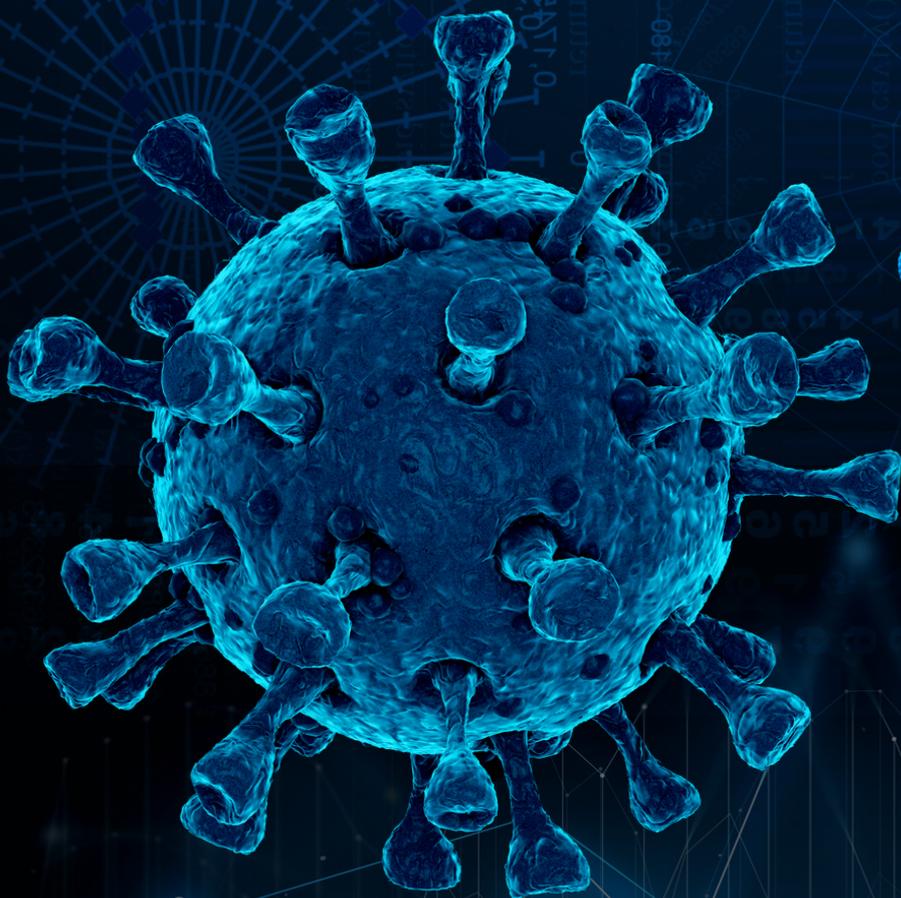
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# FINANCIAL INTELLIGENCE UNITS' ROLE IN THE FIGHT AGAINST MONEY LAUNDERING OF CORRUPTION PROCEEDS

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*WITHIN THE CONTEXT OF THE COVID-19 PANDEMIC*

## Public Report



February 2022

## Abbreviations and Acronyms

AML/CFT	Anti-Money Laundering / Combatting the Financing of Terrorism
COVID-19	Coronavirus Disease, SARS-CoV-2
DNAA	National Anti-Mafia Directorate of Italy
EU	European Union
EUROPOL	European Union Agency for Law Enforcement Cooperation
FATF	Financial Action Task Force
FI	Financial Institutions
FIU	Financial Intelligence Unit
ACWG	G20 Anti-Corruption Working Group
HR	Human Resource
INTERPOL	International Criminal Police Organization
IT	Information Technology
LEA	Law Enforcement Authority
ML	Money Laundering
NPO	Non-Profit Organization
NRA	National Risk Assessment
PA	Public Administration
PEP	Politically Exposed Person
PPE	Personal Protective Equipment
SOP	Standard Operating Procedures
STR	Suspicious Transaction Report
TF	Terrorism Financing
WHO	World Health Organization

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This project, co-led by FIU Italy and FIU Armenia, incorporates input from various FIUs across the Egmont Group (EG) membership. The project team received submissions from FIUs Afghanistan, Argentina, Azerbaijan, Belgium, Bulgaria, Canada, Cyprus, Dominican Republic, Estonia, Ethiopia, Fiji, Finland, Gibraltar, Guatemala, Honduras, Hong Kong, Italy, Jordan, Lithuania, Luxembourg, Macao, Malaysia, Mexico, the Netherlands, Peru, Romania, Russian Federation, Saudi Arabia, Senegal, Slovakia, Slovenia, South Africa, Switzerland, Taiwan, Turkmenistan, Uganda, Ukraine, and the United Kingdom.

FIUs provided detailed information, including detected corruption-related risks and associated mitigating measures, relevant case examples and lessons learned, and emerging best practices and future challenges.

**Therefore, this report is a public document and can be shared with relevant public authorities and the private sector.**

## Introduction

1. The COVID-19 pandemic had a substantial global impact.<sup>1</sup> Criminals exploited the COVID-19 crisis to increase their power and influence over communities, public bodies, and the economy when Governments enacted significant emergency COVID-19 response plans or when Governments were unable to put adequate responses in place.
2. Potential exploitations of this unprecedented and ongoing global crisis may lead to a heightened risk of corruption. This, along with its adverse and long-lasting effects, may undermine international COVID-19 recovery efforts.
3. Increased risks and challenges posed by a wide range of corruptive-type behaviours that emerged as a consequence of the COVID-19 pandemic led many jurisdictions to enact measures to ensure the public and private sectors' integrity and transparency.
4. Considering that corruption, as with most other crimes, is motivated by profit and greed, financial intelligence can play a vital role in detecting and disrupting such activities. The importance of financial intelligence and the ability to identify and securely share information through the EG network positions FIUs in the driver's seat to tackle corruption.

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<sup>1</sup> COVID-19 is defined as an illness caused by a novel coronavirus SARS-CoV-2, which was first identified amid an outbreak of respiratory illness cases in Wuhan City, Hubei Province, China. It was initially reported to the WHO on December 31, 2019. On January 30, 2020, the WHO declared the COVID-19 outbreak a global health emergency. On March 11, 2020, the WHO declared COVID-19 a global pandemic.

5. To enhance intelligence available to FIUs and their partners is of paramount importance. FIUs and LEAs need to work with FIs and other front-line reporting entities to improve the identification of suspicious transactions and activities indicative of corruption.
6. In many instances, the key FIU tools to utilize in corruption-related cases include timely access to financial data and associated information and specialized IT to facilitate financial intelligence analysis.
7. Further, in light of the corruption case reports occurring in jurisdictions because of the COVID-19 pandemic, the EG recognized the importance of understanding FIU experiences and supporting members' understanding of best practices and knowledge of various risk factors.
8. The project aims to build upon previous knowledge of corruption-related indicators by identifying new and emerging risks, threats, and vulnerabilities. The project also builds FIUs' understanding of best practices that their peers have utilized throughout the COVID-19 pandemic to achieve results in tackling corruption-related crimes. Likewise, the project team also identified other possible avenues or mechanisms available to reporting entities to support their efforts to identify suspicious financial activity potentially linked to corruption.
9. To that end, this paper presents a corruption-related risk environment snapshot during the COVID-19 pandemic's first year and considers how FIU efforts contributed to overcoming its challenges.
10. The report includes a variety of information to present a concise and pragmatic analysis of information submitted by member FIUs: the organizational and operational responses put in place in jurisdictions across the globe, corruption-related risks detected and associated mitigating measures, relevant case experiences, lessons learned, emerging best practices, and future challenges. We anticipate this will allow jurisdictions, specifically FIUs and public entities tasked with AML/CFT compliance, to ensure readiness and preparation for similar future emergencies/crises.

### **Financial Intelligence Units**

11. The COVID-19 pandemic has been ruthless and indiscriminate in affecting all jurisdictions worldwide. Communities, sectors, and businesses needed to recalibrate their operations to ensure business continuity, and FIUs were no different. Since FIUs play an instrumental role

in protecting and ensuring the integrity of their respective jurisdiction's financial systems, adapting their everyday routine became necessary.

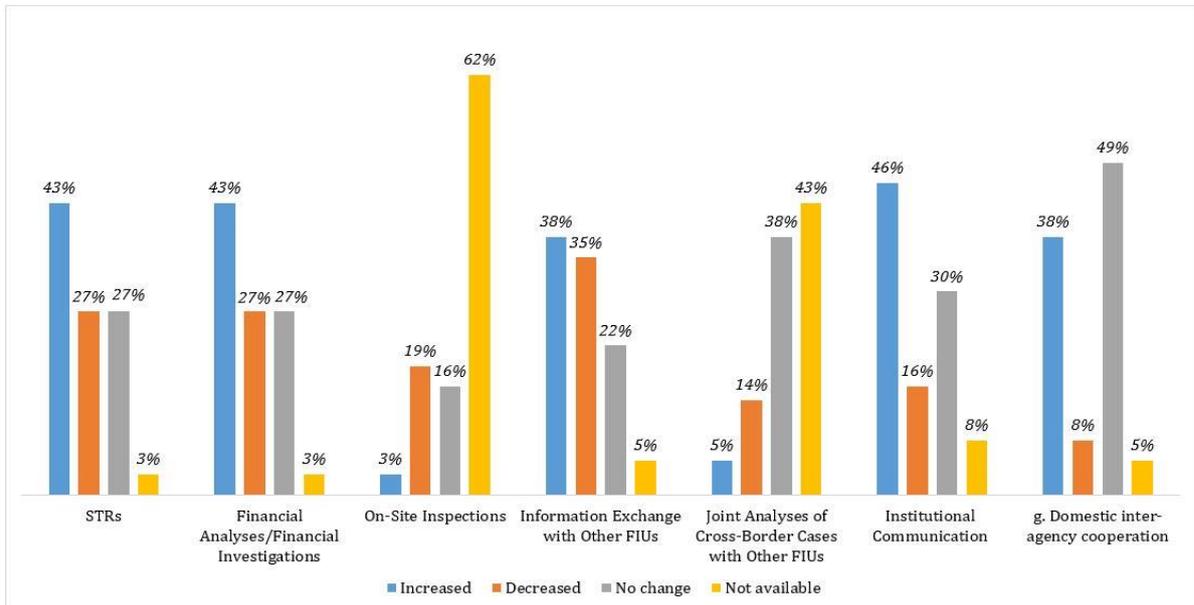
12. From the pandemic start, constant contact between regulators, supervisors, and FIUs enabled the adoption of good practices and assisted jurisdictions in ensuring the legitimate functioning of their financial sector.

### Operational Features Emerging from the COVID-19 Pandemic

13. Besides a few cases, it was clear; that the pandemic also had implications on the regular operation of FIUs. In particular, the outbreak of the COVID-19 pandemic led many FIUs to adapt to the new situation promptly. Many FIUs carried out changes in their working model by applying new IT tools and methodologies to their business model, making relevant changes to the organization and their analytical processes.
14. In the early stages of the COVID-19 pandemic, the main FIU challenge was ensuring balance among business continuity, maintaining information confidentiality, professional development, and staff well-being and turnover.
15. FIU communications with national and international stakeholders (FIs, LEAs, and other partner agencies) were affected, resulting in reduced service offerings from partners.
16. Nationally, FIUs embedded new forms of communication into their existing business practices with reporting entities and other competent authorities. Communications campaigns were launched via official emails, newsletters, documents, and educational guides to educate reporting entities on how to detect risks and prevent ML/TF during the pandemic. While already widely used within many FIUs' operational frameworks, these tools and measures were improved and advanced to meet arising operational needs.
17. Some FIUs engaged with stakeholders through virtual meetings, conducted compliance reviews aimed at building relationships, and provided compliance advice and guidance that created familiarity with the statuses of reporting institutions. Conducting virtual meetings and discussions often allowed FIUs to save time and costs (particularly during compliance visits) while not negatively affecting their work quality.
18. Despite rapid operational changes because of COVID-19, FIUs advised that reporting processes were not affected since they did not experience particular delays or

inconveniences in filling and sending STRs (given their reliance on electronic reporting methods in many jurisdictions).

**Figure 1:** The Effect of the COVID-19 Pandemic on the workflow of FIUs (% of total responses)<sup>2</sup>



19. While the potential restructuring of FIU operations has always been effective in establishing business continuity, the COVID-19 pandemic allowed IT solutions to solve obstacles that only became apparent during the crisis.
20. Regarding the financial analysis of STRs received, pandemic challenges seem to have, in some cases, sped up work process innovation with the introduction and/or further enhancement of digital/IT platforms.
21. Unsurprisingly, many FIUs reported that since the COVID-19 pandemic, the number of onsite inspections decreased (due to lockdowns or movement restrictions). This lack of onsite supervision could have resulted in criminals attempting to manipulate financial systems. Many FIUs reported that stakeholder cooperation and communication increased despite decreased onsite inspections. Specifically, domestic inter-agency and institutional communication increased, indicating that rapid adjustments enacted by FIUs and national authorities maintained acceptable effectiveness levels during the COVID-19 pandemic.

<sup>2</sup> A total of 37 FIUs provided responses.

22. Many initiatives were implemented to mitigate inherent risks to FIU workflows given reported increases in filed STRs and the timely and effective screening, prioritization and processing of STRs related to the COVID-19 pandemic.

### Organizational Changes and Impacts on Human Resources Management

23. Various COVID-19 movement restrictions and lockdowns enabled FIUs to define and enact action and emergency plans/protocols to ensure adequate staff working conditions. This included adopting continuity plans for their functions while at the same time adapting to reduced/omitted person-to-person contact during various lockdown phases.
24. Commonly used methods included switching to remote work, establishing strict shifts with the creation of “bubble” groups and dividing/splitting usual work shifts.<sup>3</sup>
25. Some FIUs only allowed remote work for employees with administrative duties that do not interact with sensitive information to exclude potential confidentiality dangers. Other FIU systems enabled remote work across the board.
26. The pandemic affected recruitment and training activities. Participation significantly decreased where face-to-face interactions were necessary to respect social distancing. Currently, most training (including international training) continues to be conducted virtually to allow for the same amount of participant attendance as face-to-face training, and many FIUs continue to rely on online courses for staff to improve their proficiency and technical knowledge.
27. In relation to hiring practices, recruitment interviews were held virtually via teleconferences and online onboarding processes were implemented, making vetting and HR checks more time-consuming.
28. IT and data protection software have been widely used by FIUs to ensure that staff can work from home without compromising security and data protection. There were instances where staff experienced network connection challenges and data issues in the initial set-up of remote working. These challenges were quickly resolved by rapidly integrating IT solutions.
29. Many FIUs have begun to use new IT solutions, which became available during the pandemic to improve performance further.

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<sup>3</sup> A bubble group is used to describe a closed cluster of specific people that can safely interact during the COVID-19 pandemic, while potentially reducing or limiting the risk of transmission.

30. Some FIUs set up new offices or structures to specifically deal with STRs related to COVID-19 or develop a more advanced monitoring/scoring system to manage STRs.
31. For tasks requiring communication among large groups, virtual conference meetings have been the only substitute for person-to-person communication.<sup>4</sup>
32. Remote working has been allowed for employees with pre-existing health conditions, who are close to retirement, who share a residence with the elderly, and who suffer from chronic illnesses to ensure the health and safety of staff and the community.

### Assessment of Risks

33. As mentioned in FATF Recommendation 1: risk assessment is an instrumental element for FIUs for stakeholders within the global AML/CFT community.
34. The rapid challenges that FIUs faced and overcame during the pandemic included assessing risk environments and evaluating the effects and changes created.

### Key Findings

35. Many FIUs highlighted that market specifics affected by the COVID-19 pandemic (PPE procurement, medical supplies and food) and the exceptional nature of the situation had increased the possibility of corruption cases. Potential bribery and corruption risks in healthcare included bribery and other practices to win delivery contracts, criminal groups involved in the supply of medical equipment, and supplier and retailer collusion to inflate the price of essential products when rules for promoting and governing fair competition were less prioritized.
36. Many FIUs indicated that the large amount of funds allocated for global research and development to find and produce a vaccine and related financial interests shared between government authorities and private sectors could heighten the risk of corruption.
37. As global authorities are assessing and overcoming the COVID-19 pandemic's economic consequences, FIUs indicated that the urgency dictated by the pandemic and the financial burden of economic aid programs had created a high risk for corruption.

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<sup>4</sup> Virtual conference meetings via online platforms have substituted in person meetings and have been the primary method for organizing all forms of meetings, including but not limited to plenary and working group meetings.

38. However, only a few respondents' FIUs carried out targeted risk assessments emerging from the pandemic, including corruption risk. Common reasons cited for not conducting risk assessments were:
- the risk of corruption has been reconfigured within the scope of previous exercises still in place;
  - FIUs focused on different kinds of risks such as fraud or cybercrime (in some instances strictly connected with the risk of TF, with some FIUs indicating that this can take the place of traditional fundraising by NPOs).
39. Where specific emerging risks have not been assessed, they have still been addressed.
40. Where NRAs were conducted, ML risks identified related to corruption included active and passive bribery in the public and private sector at the central and local level (including facilitating payments), embezzlement of public funds including through public procurement fraud, abuse of office, trading in influence, and to a lesser extent extortion. In some cases, the laundering of corruption proceeds (including property related to embezzlement/procurement fraud with EU funds) took place through complex domestic and foreign-based ML layering schemes. These schemes had assistance from ML professionals for subsequent integration into financial instruments abroad, commercial, and domestic real estate.
41. The risk of corruption detected by FIUs in some cases has been linked to the large volume of budgetary, financial resources mobilized by governments to support national economies, fund vaccine development (the most perceived object of corruption), set-up of large economic aid programs and temporary ease in public procurement procedures (single seller selection).

### Corruption-Related Risks Identified

42. The following risks were identified where specific risk assessments were carried out (and in general, where real impacts have been observed on domestic and/or transnational corruption risks):
- Misuse/diversion of COVID-19 aid funds;
  - COVID-19 related fraud (medical supplies);
  - Exploitation of the loosening of controls surrounding the pandemic, evading due diligence and submitting suspicious transactions;
  - International links of COVID-19 related fraud and suspicious transactions;

- Corruption related to public tenders and direct purchases;
  - Favoritism in the awarding of government contracts;
  - Bribery for special treatments;
  - Insider trading (particularly on an international level);
  - Counterfeiting of medical equipment;
  - Frequent use of supplementary and larger budgets or additional funds not always properly accounted for.
43. Some FIUs noted that the pandemic allowed ML practices linked to corruption, including tenders, direct purchases, forgery of documents and diversion of funds.
44. From a specific analysis conducted by FIU Luxembourg, the main typologies of corruption in COVID-19 include favouritism in awarding government contracts, bribery for special treatment, and insider trading. Domestic corruption risks linked to the emergency procurement of goods and services in the COVID-19 pandemic were identified.

#### **Experiences Provided by FIUs**

**FIU Luxembourg** - To address various criminal activities related to the COVID-19 pandemic, an analysis of the applicable typologies and indicators was carried out under the "Europol Financial Intelligence Public-Private Partnership " framework (EFIPPP)." FIU Luxembourg co-chaired a working group, preparing background papers on the following topics: misuse of public funds, sale of counterfeit goods, non-delivery fraud, BEC/CEO fraud, and investment fraud. These papers were shared with the relevant reporting entities in May 2020. At the end of 2020, the EFIPPP prepared an updated typology paper. This document - which is strictly confidential - reflects the work conducted on the "Bribery and Corruption in the context of COVID-19."

The following non-exhaustive set of circumstances was highlighted as factors that may facilitate the development of corrupt activities: a) disruption of normal life (restrictions, lockdowns, business shutdowns, travel bans); b) emergency legislation shifts power to the Executive; c) competing needs and emergencies; d) staff shortages; e) extensive stimulus packages; e) reduced control procedures; f) scarcity of products in general, and medical supplies more specifically; g) urgent need of medical supplies (PPE, COVID-19 tests, vaccines); h) reduced scrutiny for government contracts (emergency legislation, urgency of procurement, direct awards of contracts, no open bidding processes); and i) vast amount of non-public information bound to have a significant influence on financial markets.

Modus operandi for corrupt behaviour in the COVID-19 context includes, but is not limited to:

- Lobbyism by PEP - affiliated persons or businesses owned or controlled by close associates of PEP or political parties (contracted companies often well-connected in producing countries; unit price of PPE often above market price; companies usually act only as middle-man with exorbitant consultancy fees; companies only start on fulfillment work after the contract was awarded; sub-contractor complete procurement process with the third party; possibly several companies delivering the final product;
- Conflicts of interest for politicians and government officials (as business owners; favourable restriction decisions regarding their business; as friends or relatives of business owners; awarding of lucrative government contracts);
- Bribing of healthcare professionals for treatment;
- Bribing of politicians for special permissions (e.g. being declared essential);
- Corrupt law enforcement officers demanding bribes;
- Custom officials handling international trade or in charge of cross-border checkpoints;
- Politicians with insider information buying and selling shares of companies;
- Large infrastructure projects to boost the economy during economic crises; and
- Increased risk of corrupt practices during the public procurement process.

Three of the main typologies of corruption in COVID-19 are favouritism in awarding government contracts, bribery for special treatment, and insider trading. Regarding corruption Involving Government Supply Contracts, indicators include:

- Company has no prior experience in the medical field, consultancy contract;
- Involvement of a middleman;
- Higher than market value prices;
- Companies paying other companies to perform logistical tasks in countries known for corruption to transfer risk to the other firm;
- Tender processes with abnormally high bids with only one company bidding;
- Documents and knowledge about payments spread over several jurisdictions for no reason;
- The fiduciary service company which sets up the structure subject to negative media; and
- Beneficial owner indirectly linked to PEP.

Indicators applicable to the FI that holds the beneficiary account:

- Significant increase in revenue since the beginning of the pandemic;
- High consultancy fee, especially compared to overall contract size;
- Most or all of the money is quickly transferred to another FI;

- Attempts to obtain ownership documentation from sender met with resistance;
- Desire for unnecessarily complex economic and beneficial ownership structure.

Bribery indicators include:

- Facilitation of payments as bribes to quicken processes
- Choice of specific non-transparent financing methods, e.g., private placement schemes
- Intermediaries are included in business deals once a contract has already been agreed

Indicators applicable to the FI that holds the beneficiary account:

- Inconsistent customer profile and activity, including the source of wealth (e.g. stated career history, expertise, or age);
- Euphemisms for bribes as keywords (e.g., commission, marketing fee, surcharge, consultancy fee)
- Significant amounts received or paid to individuals or entities;
- Use of sham or shell companies.

Insider Trading indicators include:

- Significant trading volumes before major market movements;
- Buyer or seller connected to PEPs or other people in positions of power;
- Buyer or seller connected to people in possession of privileged information.

**FIU-The Netherlands (FIU-NL)** – The Dutch government put an emergency package of measures to compensate for the damage to the economy. The emergency led to various forms of financial and economic crime, including fraudulent purchases through fictitious parties of medical protective equipment, fraudulent payment of crisis benefits, CEO and invoice fraud, and changes in common ways of ML.

FIU-NL immediately sought cooperation with LEAs and the Public Prosecution Service to combat these new ML/TF risks. This cooperation has proven to be very effective and efficient.

To help obliged entities detect these new risks, FIU-NL communicated COVID-19 fraud-specific indicators through a newsletter FIU-NL asked entities to mark COVID-19 related reports with a certain code. Internally, FIU-NL put together a team to analyze the newly reported unusual transactions daily.

FIU-NL sent three newsletters to obliged entities containing alerts, anonymized cases and red flags. This allowed FIs to set up transaction monitoring to detect unusual transactions such as aid scheme fraud. FIU-NL also contributed to various Webinars.

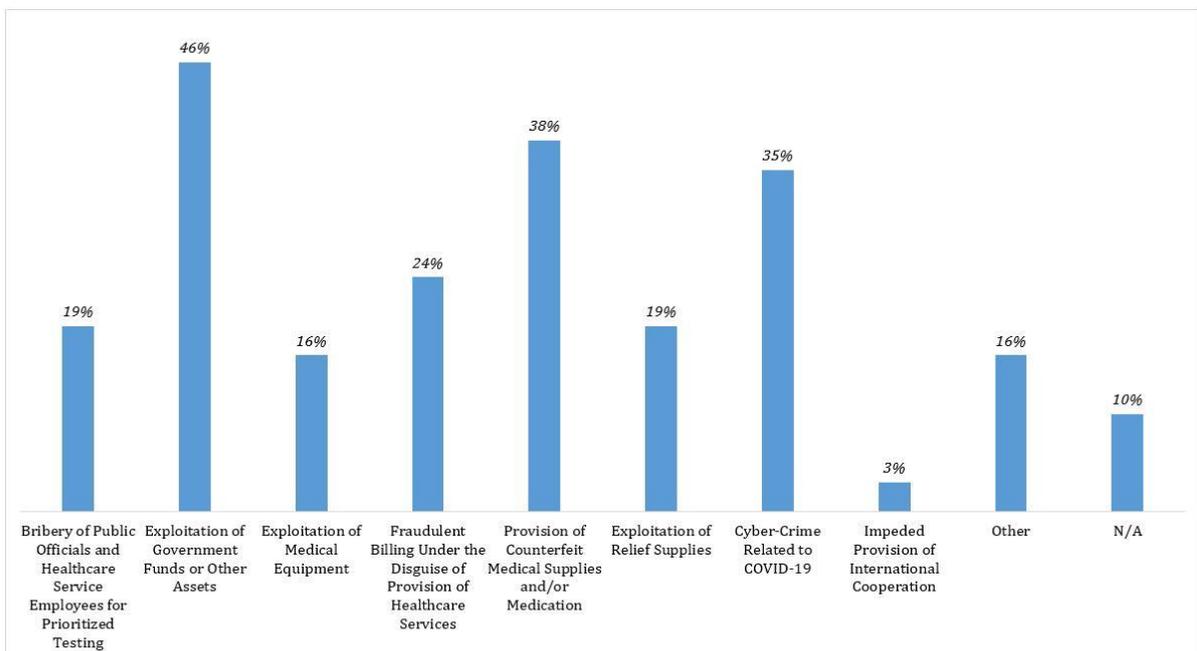
The first weeks of the analysis revealed fraud related to the purchasing of face masks and other PPE, suspected fraud relating to emergency allowances, and an increase in other

offences were also seen. . Analysts examined all incoming reports related to COVID-19 for suspicious patterns. They found government grants used for online gambling directly transferred to foreign accounts.

Figures of 2020 related to Covid-19 shows the results regarding this method:

Number of UTRs	2.500
Number of STRs	1.259
Number of case files	1.093

**Figure 2:** Corruption-Related Risks Identified because of the COVID-19 Pandemic (% of total responses)



45. Responses provided by some FIUs indicated that most of the corruption-related risks identified by jurisdictions are related to the exploitation of government funds, provision of medical supplies or medication, and cybercrime related to COVID-19. This included transactions with newly incorporated companies or whose corporate structure was not transparent, transactions without documentary evidence, or in cases with documentation containing irregularities.
46. Counterfeit medical supplies, such as medicine, PPE, and other supplies, were also identified.

47. Responses from some FIUs indicated that most corruption-related risks identified dealt with emergency policies or responses enacted within the critical timeframe of the pandemic's early phase, mainly when lockdowns were in effect.
48. Several FIUs and supervisory bodies issued joint communications at the beginning to address issues relating to general compliance and reporting to reduce the risks of non-compliance and ML/TF during the pandemic.
49. In many jurisdictions, the risk for institutions not being as quick in following identified changes during the crisis, in most cases, required authorities tasked with AML/CFT to promptly adjust and recalibrate the readiness level of their response to these challenges.

#### **Experiences Provided by FIUs**

**FIU Belgium** identified the following other corruption-related risks:

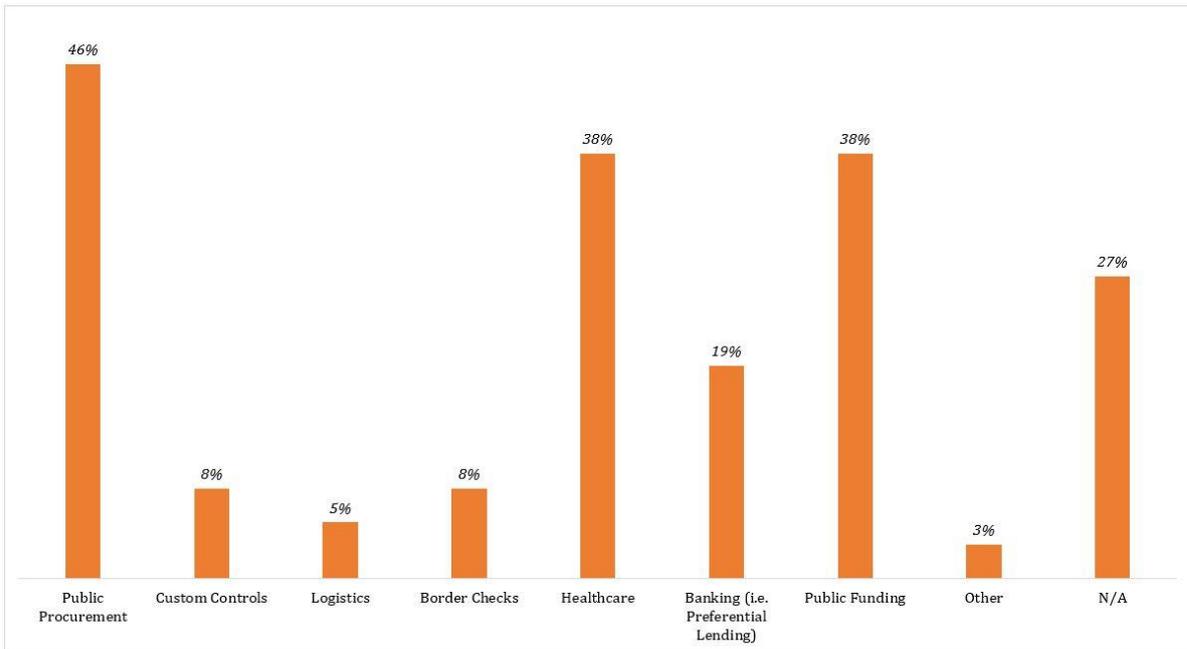
- Transactions that could be related to the embezzlement of public funds, public procurement or government contracts in a sensitive sector (e.g. Healthcare, pharmaceuticals and medical equipment);
- Transactions involving newly established companies or companies with an opaque management structure;
- Transactions involving intermediaries or consultants;
- Transactions that could not be supported by documentation (contract is missing) or inconsistent documentation (important provisions and conditions are not listed, insufficient or excessive amounts, amendments without any commercial rationale);
- Payments carried out outside of the contractual terms;
- Proceeds of embezzlement, bribery or corruption are hidden or concealed as another type of income by decision-makers or PEPs.

50. FIUs also indicated cyber-crime as one of the most apparent risks, in particular payments for apparent supplies or medicine for the treatment of COVID-19.

#### **Business Sectors and Actors at Risk**

51. The COVID-19 pandemic affected all aspects of the modern world; lockdowns have had implications on the global economy and led to a global slowdown. The slowdown has increased the risk of misuse by criminals across various sectors.

**Figure 3: Business Sectors and Actors Most Likely at Risk (% of total responses)**



52. The COVID-19 pandemic significantly impacted criminal trends and behaviours. STRs have identified new threats and risks, as FIUs' operational and strategic analyses have shown. Criminal activity has become more "fluid" in nature, inconsistent yet dynamic, relentless in taking advantage of every opportunity to maximize profit, persistent in weaving through and blending with diverse economic environments, and resolute in infiltrating businesses and society.
53. During the COVID-19 pandemic's initial phases, many reporting entities observed and reported anomalies, indicating that criminals were trying to take advantage of the health emergency. Many FIUs indicated they were aware that an increase in the prevention system's effectiveness was essential for pursuing two objectives:
- To prevent resources intended for supporting economic recovery and the health sector from being hijacked by criminals; and
  - To ensure easy access to aid by companies and families most in need by avoiding excessive and burdensome safeguards.
54. FIUs quickly identified and understood the business sectors and actors most at risk of misuse by corruption-related practices: public procurement, public funding, and healthcare. At the pandemic's beginning, critical responses and emergency measures were aimed at containing disease spread, meaning more funds were allocated to programs and initiatives supporting healthcare and emergency aid.

55. The sector with the biggest risk was public funds due to the large volume of government support programs intended to stimulate economies and assist communities financially. Most FIUs also identified temporary easing of public procurement procedures (single seller selection possible) as a corruption risk.
56. This was also supported by FIU responses prov about the EG's effectiveness of indicators set up in 2018. Most identified were:
- Distortions in tenders and purchasing;
  - Legal entities with little or limited experience receiving highly complex and technical government contracts/projects (not compatible with the size or experience of the entity);  
or
  - Receiving government contracts/projects unrelated to their field of business.
57. South Africa's FIU identified a further indicator of newly registered/incorporated companies successfully participating in large Government tenders.

#### Experiences Provided by FIUs

**FIU Italy** - In the most acute phase of the COVID-19 pandemic, the healthcare sector was exposed to fraud and corruption risks, especially regarding acquiring emergency-related supplies, such as PPE, medical equipment, and medicine. The need for urgent intervention forced some in the health sector and public administration to purchase products without checking the reliability of suppliers. Scams also affected the private sector by offering counterfeit or non-existent products or soliciting donations for charities related to the pandemic.

Significant risks have also been associated with the illicit acquisition of public funds to support citizens and businesses. Corruption of public officials PEPs or companies connected to them appeared to ensure preferential access to financial resources in the absence of the necessary requirements or through falsified documentation stating the necessary requirements. A serious risk is criminal infiltrations into the economic and productive system, with companies also vulnerable to usury, the act of lending money at unreasonably high-interest rates, often becoming the means for a subsequent takeover of the business, facilitated by repayment difficulties.

**FIU United Kingdom** - In August 2020, an analysis carried out by the NCA concluded that it was likely that, worldwide, the COVID-19 pandemic had reduced the scope for bribery and corruption across all industry sectors, except for healthcare procurement. Potential bribery and corruption risks to the global healthcare sector were judged to include: the use of bribery and corruption to win contracts to deliver services; the involvement of

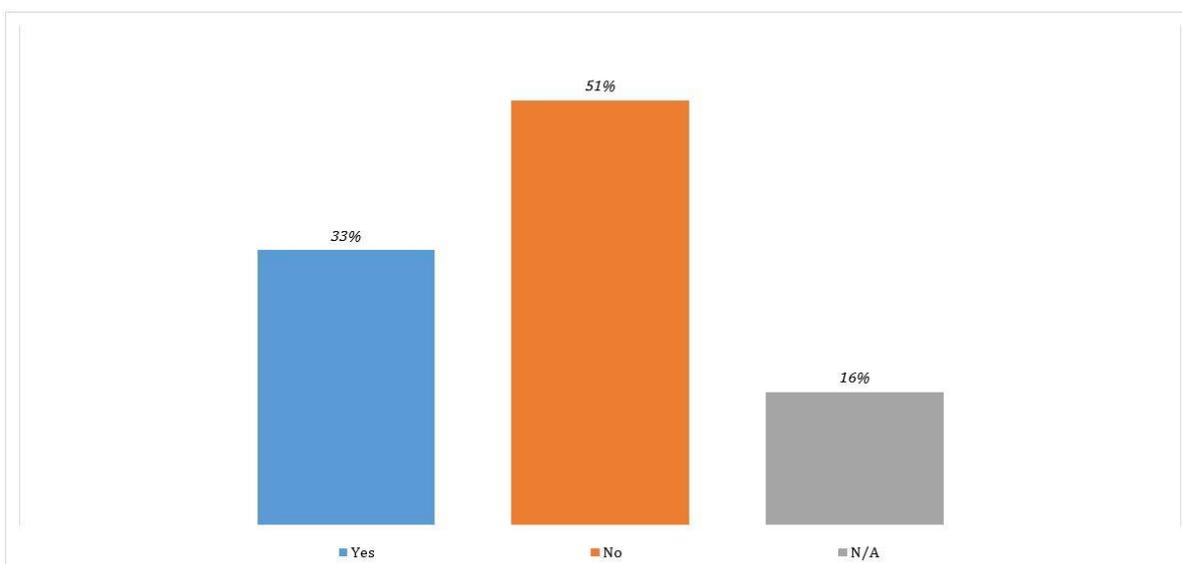
criminal groups in the supply of medical equipment; and collusion by suppliers and retailers in the inflation of the price of essential products while rules to promote competition were relaxed.

Around the world, COVID-19 and related restrictions on movement (e.g. staff having to work from home) might have led to changes in control measures used by organizations, including FIIs. This could have made it more difficult for FIIs to identify suspicious payments in some cases.

### Changes to Corruption-Related Risks Due to the COVID-19 Pandemic

58. The COVID-19 pandemic demonstrated different understanding levels regarding the evolution of corruption-related risks.

**Figure 4:** Do FIUs See an Evolution in the Corruption-Related Risk Due to the COVID-19 Pandemic? (% of total responses)



59. FIUs were asked to elaborate whether they believed there was an evolution of corruption-related risks due to the COVID-19 pandemic; most of them responded they did not.

60. However, some FIUs indicated that the pandemic posed a challenge for jurisdictions with significant risks requiring the mobilization of resources, creating corruption opportunities. Other FIUs pointed out that, at the time, no specific and definitive conclusions could be drawn suggesting an evolution of corruption.

61. The current views of FIUs are mixed, and it is likely an evolution will be seen in the future, which is worth observing.

## Other Predicate Offences Detected

62. STRs received since the pandemic started have seen an increase in predicate offences, with particular reference to fraudulent schemes, including those related to human resources (HR), taxation, investments, online sales of PPE where buyers did not receive purchased goods), and COVID-19 tests and medicines.
63. Reporting FIs noted increased cybercrime through social engineering and phishing attacks.
64. Another risk during the active phase of COVID-19 restrictions was NPO fundraising under the pretext of helping those suffering due to the pandemic. A sector exposed to specific TF risks, with a possible reduction of TF funds due to economic and financial instability and job losses. The pandemic opened up a new fundraising method, including fraudulent schemes and hacker attacks.
65. In general, threats detected during the COVID-19 pandemic mainly pertain to scams involving surgical masks and medical equipment using cold-emailing or bogus social media advertisements. Fraudsters created bogus websites under various pretexts, such as the selling and lucky draws of surgical masks or appealing for vaccine development donations to cheat victims and commit identity theft.
66. The payment card sector saw increased activity due to a decrease in the use of cash. This can have advantages in terms of greater traceability, but that may be only apparent due to high transaction fragmentation and structural uncertainty around actual operation executors, especially in cases of card reloading. The frequent use of payment cards issued by foreign intermediaries has been noted, as has carrying out partial cash withdrawals of overall significant amounts, in the absence of obtained information on its related funding. It appears necessary to subject payment cards to AML oversight, as they are nodes at which useful information for prevention is centralized and not always traceable through requests to individual intermediaries.

### Experiences Provided by FIUs

**FIU Italy** - In 2020 there was a significant increase in STRs attributed to organized crime activities. This could be due to the development of indicators for identifying subjects and activity related to this crime type, increasing reporting entities' ability to identify suspicious transactions. Companies' mapping was carried out based on data from the business register and their information assets, which appear to be more exposed to the

risk of contact with organized crime. The development of an indicator that makes it possible to measure the similarity of firms is providing promising results in identifying companies found to be infiltrated by organized crime. Following the pandemic crisis, the indicator was used to identify anomalous concentrations of loans backed by public guarantees from individual intermediaries.

**FIU The Netherlands** - shortly after introducing the crisis benefits, a banking institution noticed a transaction. A student account holder received a crisis payment of 4000 euros in his account and withdrew this in cash almost immediately. The account holder had registered as a maintenance company in the commercial register shortly before the crisis. He had changed this into a hairdressing salon, which enabled him to apply for and receive the benefit. At that time, a maintenance company was not yet eligible for a benefit. The banking institution reported the transaction to FIU-NL under the agreed coding. FIU-NL found other transactions related to the account holder and established that the man had previously been in contact with the police for asset-related crimes. The FIOD received the FIU file, and in consultation with the Public Prosecution Service, it was decided to start the investigation immediately and apprehend the suspect. It was also decided to publicize the investigation extensively in the media for crime prevention reasons. The national media paid extensive attention to the fraud. The trial that followed was again widely reported in the media. The prosecution demanded an unconditional prison sentence. In October 2020, the accused was sentenced to 180 hours of community service and ordered to repay the fraudulently received benefit of €4000.

Before COVID-19 struck in the Netherlands, the virus crisis in China was approaching its climax. During that period, a Chinese company planned to order ten million euros worth of facemasks from a Hungarian company. What it did not know was that it was dealing with a criminal. A Romanian resident in the Netherlands posed as CEO of the Hungarian company. This company was renowned, completely ignorant of what was going on in its name. To obtain the consignment, the Chinese company had to make a down payment of EUR 300,000 and transfer it to an account in the name of an import and export company with a Dutch bank. The fraud became known shortly after that amount had been transferred to the Dutch account. FIU Hungary directly informed FIU-NL, after which we took action together with an investigation service and the relevant bank. At the time of the intervention, the balance was still €211,000. This amount was immediately blocked. The account history showed the receipt of 300,000 euros, followed by several cash withdrawals per day and debit card payments for all kinds of purchases. In the days between the transfer and the discovery of the fraud, the account holder had withdrawn 10,000 to 15,000 euros in cash several times a day. The account holder was Romanian in

question, also the owner of the import and export sole proprietorship. The Hungarian police received all the findings from their Dutch colleagues for their investigation. The criminal seizure of €211,000 was maintained until a formal request for mutual legal assistance was obtained from the Hungarian authorities, and the amount could be transferred back to Hungary.

## Risk Mitigating Measures

67. The situation resulting from the COVID-19 pandemic, notably regarding FIU identified risks related to corruption practices, led many stakeholders to enact countermeasures.

## Mechanisms, Policies and Measures Put in Place

68. To mitigate inherent corruption risks arising from the pandemic, several initiatives were taken by FIUs. The main concern - especially considering the apparent STR increase – has been to effectively screen and process those resulting from the COVID-19 pandemic promptly. That objective is closely connected with the alignment of all authorities on suspicious activities detected and the fast-tracking of investigations.

69. Risk mitigation measures taken can be classified as follows:

- Workflow management;
- Organizational measures;
- Communication to assist and alert obliged entities or other stakeholders (both public authorities and not);
- Empowerment of public expenditure controls;
- Public-private partnership; and
- Cross-cooperation among authorities of mechanism/public-public partnership/modification of institutional framework.

70. Many FIUs put more resources into the incoming COVID-19 related STRs, often putting mechanisms to filter and tag incoming disclosures, disseminating cases promptly, immediately forwarding analysis to LEAs or controlling-supervision authorities. Newly established departments were responsible for developing more advanced monitoring and scoring systems or specific centers within FIUs to investigate fraud and corruption allegations emanating from COVID-19 relief funds and investigate corruption cases related to the pandemic.

71. As highlighted above, in some cases, the pandemic onset seems to have sped up the innovation of work processes (through the introduction and/or further enhancement of digital solutions) to increase service levels to benefit stakeholders, including:

- Some FIUs implementing goAML, an integrated software solution developed by the UNODC;<sup>5</sup>
- Implementing IT solutions of network/graph analysis to providers of the State (health sector) that registered unusual operations;
- Requesting obliged entities to identify contractors and suppliers of the State in the case of STRs (a valuable tool in identifying cases of corruption);
- Automatically qualifying and detecting operations related to COVID-19 via new risk indicators;
- Marking/tagging STRs as pandemic risk related;
- Identifying (and permanent monitoring) priority indicators;
- Integrating FIU search algorithms with keywords to detect COVID-19 crimes;
- Periodically amending keywords and lists used to filter STRs as new typologies are uncovered; and
- Providing anti-corruption authorities direct FIU data access during the COVID-19 pandemic.

72. In some cases, responses provided led to the emergence of good practices, including:

- Disseminating typologies to all reporting entities so they are alert and can adjust their prevention systems;
- Publication of practical case studies to benefit public administration evaluations;
- Set up relationship maps of all cases related to COVID-19 by using network analysis graph tools with the aim of:
  1. Determining the existence of companies that had no direct corporate relationship and were not related commercially or financially, and
  2. Providing primary information source in corruption cases derived from COVID-19.
- Set up mechanisms to filter and tag incoming disclosures;
- Requests to reporting entities to add “COVID19” to STRs with a possible connection with the pandemic (filter and tag/early screening/prioritization of workflow COVID-19 related);
- Inter-agency cooperation and prosecution-led parallel investigations streamlined the process;
- Analysis of public procurement procedures; and
- Supplier information checks, including using registers of unfair suppliers, to ensure the adequate provision of supplies and prevent any possible unfair/illicit behaviour.

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<sup>5</sup> GoAML application has been developed by the United Nations Organization on Drugs and Crime.

73. Communication initiatives were also activated through issuing guides, training, and reading materials to reporting entities and stakeholders on arising risks from the pandemic. These included awareness campaigns on emerging trends and typologies, including identifying challenges and best practices in the face of ML/FT risks, threats and vulnerabilities arising from the COVID-19 pandemic, and due diligence processes for operations that generated the greatest risk in the COVID-19 environment. In this respect, reporting entities were often requested to identify contractors and suppliers of the state in STRs to identify corruption cases.

#### Experiences Provided by FIUs

**FIU Italy** - Issued two communications to reporting entities in April 2020 and February 2021 to facilitate recognizing new types of suspicious behaviour. Reporting entities were asked to apply AML measures most effectively. This resulted in an increase of STRs related to the pandemic (2.300 in 2020 and almost 1.800 in the first five months of 2021).

**FIU Belgium** - Published warnings on its website contained descriptions of potential risks and modus operandi that might arise in the context of the pandemic.

The first message (in April 2020) drew the attention of reporting entities to the short-term consequences of the COVID 19 crisis on predicate offences to ML. It focused mainly on fraud targeted at individuals and companies (fraud related to selling protective equipment, CEO fraud). Obligated entities were requested to add "COVID19" to STRs with a possible connection with the pandemic.

A second communication (in April 2020) aimed at raising awareness of obliged entities on the possible medium-term effects of the changed economic situation on ML. The note dealt with predicate offences, including cybercrime, drug trafficking, corruption, and social and fiscal fraud. The information was based on the analysis of FIU files, open-source and studies by several national and international partners and organizations.

In addition to formal messages on the FIU website (3), the FIU regularly liaised with various categories of obliged entities, both directly and through overarching professional organizations.

**FIU Mexico** - On March 25, 2020, a joint statement was issued by the FIU along with the National Banking and Securities Commission (the supervisory body of FIs) requesting to take measures, such as a) to remain alert to transactions involving illicit resources related to the COVID-19 global health contingency; b) to document any situation that may lead

to late reporting or interfere with AML/CTF compliance; c) report any suspicious activity related to COVID-19; d) communicate concerns about delays in sending STRs, and e) send queries and doubts related to the application of AML/CFT legislation.

The FIU, together with the Tax Administration Service (SAT), the supervisor body of DNFBPs, issued on March 27th, 2020, a joint statement requesting DNFBPs and Compliance Officers to take the following measures: a) document any situation that may lead to late filing of Notices or interfere with AML/CFT compliance; b) report any suspicious activity detected related to the COVID-19 pandemic.

Finally, the joint communication emphasized that both the FIU and supervisor bodies (CNBV and SAT) would continue to support reporting entities for the duration of the critical health situation related to the COVID-19 pandemic.

The FIU, together with the CNBV, issued in 2020 the Guide on "Money Laundering and Terrorist Financing Risks arising from the COVID-19 global health contingency" to assist reporting entities in the identification of challenges and best practices in the face of ML/FT risks and threats and vulnerabilities arising from the COVID-19 pandemic. The document, sent to reporting entities through Interagency Information Transfer System (SITI PLD/FT), contains sections on Definitions, International Context, National Context, as well as ML/FT Risks derived from COVID-19, identified at the international level that could be provided new opportunities for criminals and terrorists to carry out ML/FT transactions (fraud, computer crimes, changes in financial behaviour, corruption, volatility of the financial system, TF).

**FIU Saudi Arabia** - The Anti Money Laundering Permanent Committee (AMLPC), consisting of all the relevant authorities in combating ML/TF in the Kingdom of Saudi Arabia, in addition to the organization of meetings, provided available information to assist in the investigation procedures of cases (e.g., Customs provides the relevant authorities, upon request, with the declaration data of violator, also the data of exports/imports and customs violations of customs regulations). The authorities concerned with combating ML also coordinate by phone through liaison officers or bilateral (remote) meetings to ensure information exchange and business continuity during the pandemic. Also, the competent authorities coordinated and followed up to monitor any cases of unauthorized fundraising, e.g., information on cases exchanged on an ongoing basis to stop any case considered to violate the law and refer it to the competent authority for investigation, according to the fundraising laws and regulations).

Several competent authorities in the Kingdom took measures to limit the impact of the virus. The Saudi Arabia Central Bank – SAMA has taken measures to ensure that financial /banking systems are not interrupted, and payment systems continue to operate and

provide high-quality services. SAMA issued instructions to encourage all their customers to conduct financial transactions through electronic and digital channels to maintain social distancing and ensure their safety.

SAMA also issued instructions to banks to provide the necessary operational support to the payment systems and related companies and monitor ATMs to ensure the availability of cash to achieve targeted operating rates. In addition, SAMA issued instructions to banks and payment service providers to increase purchase limits of points of sale and raise monthly e-wallet limits.

SAMA also coordinated with SAFIU to direct the FIs, to report any suspicious activities through electronic reports on suspected transactions. Cooperation between SAMA and the Saudi Arabia financial investigation Unit (SAFIU) continues by disseminating emerging risks and informing FIs about such risks. SAMA also suspended work in small FIs, such as money exchange centers, to prevent the transmission of COVID-19 through the handling of cash.

The Ministry of human resources and social development studied and analyzed the gaps and risk areas that criminals could exploit during the pandemic by collecting funds through conglomerates or people whose funds were difficult to track, for example, a) raising awareness and educating the community to deal directly with official and trusted authorities through their official accounts; b) consolidating and centralizing funds for the donations for those affected by the pandemic; c) establishing controls for non-profit entities implementing these initiatives for field and administrative work so that the agency and its employees were able to be identified.; and d) requesting volunteers to participate by registering on the national volunteering platform.

The SAFIU circulated information to the authorities on the increased risks of criminal activity that may be exploited during the pandemic, including TF, fraud, cybercrime, and corruption.

74. Key information in jurisdictions' publicly available procurement contracts was sometimes used to commit fraud on funds allocated to fight the pandemic. Indicators of this fraud include:

- Execution of dubious financial transactions by contractors;
- Contractors registered as a legal entity in a period of less than six months before contract conclusion;
- Social assistance payments disbursed using digital payment methods;
- The presence of credit institution refusals to carry out financial transactions of contractors; and
- Fact(s) of bank account agreement terminations by credit institutions with contractors.

75. Some procurement irregularities were identified, raising suspicion of possible connections with corruption cases. Among the main findings were non-compliance with procurement regulations, abuse of emergency procurement provisions to acquire non-essential or over-priced PPE, price differentiation beyond market-related prices and rates charged for PPE supply more than regulated pricing lists.
76. PPE suppliers showed anomalies, including that some had only been registered a few days before the pandemic, some were not registered at all, and some supplied goods that were inconsistent with the nature of the registered business.
77. Public/public and public/private initiatives aimed at developing the inter-agency cooperation were also pursued by:
- Making platforms available that provide the capacity for banks to detect and report suspicious financial activities related to the COVID-19 pandemic (South Africa SAMLIT platform provides the capacity for banks to detect and report suspicious financial activities associated with the COVID-19 pandemic);
  - Execution of Public-Private Partnership Program – Information Sharing Protocol (PPPP-ISP) Agreement or Memoranda of Agreement between the FIU and relevant covered persons/FIs/money service businesses/designated non-financial businesses and professions (DNFBPs);
  - Increasing cooperation between LEAs and entities granting public funds;
  - Strengthening of anti-corruption units;
  - Centralizing audits of entities and subjects that apply for relief funds ensuring proper use and management of public money (i.e. establishment of a central body);
  - Jointly monitoring recipients of public funds to avoid “technical” (sham) companies;
  - Intensifying actions to verify and investigate the management of procurement;
  - Centralizing management of all COVID-19 related funds (i.e. establishment of a COVID-19 task force), e.g. Relief items and donations were given to a National Taskforce, and specific bank accounts were opened to receive donated funds;
  - Centralizing investigations of fraud and corruption allegations from the COVID-19 relief fund (i.e. establishing a Centre housed within the FIU to focus on cases related to mismanagements of COVID-19 relief funds) to form a comprehensive awareness of the pandemic impacts;
  - Setting up cabinets to promote policies, guidelines, and mechanisms among the public administration (PA) to address the challenges around ethics, transparency, efficiency, and effectiveness of investment and public spending (FIU membership);

- Setting up an immediate response coordination mechanism to focus on corruption, fraud, and theft is related to the COVID-19 pandemic.

#### Experiences Provided by FIUs

**FIU South Africa** - Continuing the efforts of fighting AML/CFT crimes and protecting the South African economy, the FIC and its stakeholders established the FUSION CENTER to focus primarily on cases related to the mismanagement of COVID-19 relief funds; to establish immediate and joint investigations (civil and criminal) to fast track matters, and to create a central database of all cases. The Fusion Centre is a practical initiative that encourages multi-agency collaboration on high-priority issues. Through the center, South Africa hopes to coordinate different agencies better to combat financial crime. The Fusion Centre initiatives focus on a four-pronged approach: Prevention, Detection, Investigation and Resolution.

78. Some FIUs made proposals – some at the legislative level – to balance the need for urgent economic interventions and the protection of legality. Policymakers were requested to explicitly reference compliance with AML/CFT obligations, facilitating the traceability of financial flows associated with the financial measures put in place to support the economy.

#### Experiences Provided by FIUs

**FIU Italy** - During the pandemic, risks emerged from the deployment of the Italian Government's legislative initiatives put in place through urgent decrees to support the economy. The use of self-declarations, necessary for fluid access to guaranteed loans and non-repayable contributions, could have allowed many subjects, without the pre-requisites, to receive financial resources fraudulently. The difficulties in verifying such requisites under tight time constraints often made it difficult to intercept activity related to organized crime. To simplify the disbursement procedures and allow for smooth access to support measures while protecting the legality and the integrity of the economy, FIU Italy presented concrete regulatory proposals aimed at ensuring the correct and complete application of all AML obligations, including the opening and use of "dedicated bank accounts" to channel public funds and facilitate the traceability of financial flows associated with of support measures.

**FIU Guatemala** - Extra measures were taken about operators and obligated subjects in some economic sectors, which had links to PEPs, State Contractors and Suppliers, and Delivery of Economic Aid through a Social Program created by the government due to the pandemic.

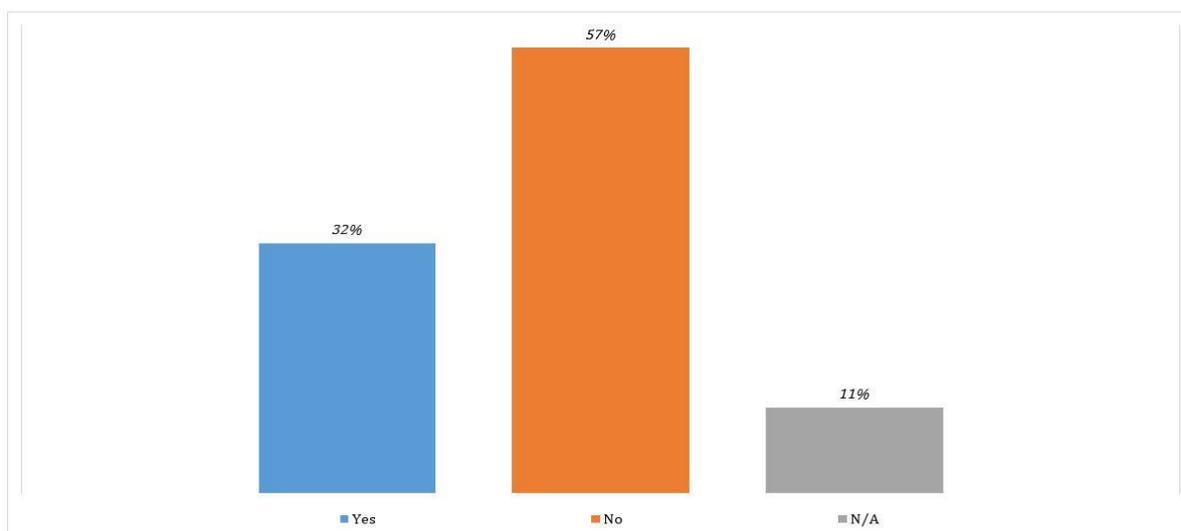
- PEPs: Obligated subjects collect information from clients considered PEPs in a form designed by the Special Verification Intendancy (FIU), as an addendum, to the form used at the beginning of the commercial relationship. A managerial official, appointed by the board of directors/senior management body of an obligated subject, authorizes the initiation or continuity of a client's business relationship considered. The board of directors/senior management body is informed by the compliance officer, every quarter of the policies related to PEPs. They monitor in a broad or improved and continuous way the transactions carried out by the PEP, and when derived from transactional monitoring, the obligated subject identifies unusual transactions to determine if they are suspicious, in such case, I, communicate it to the FIU. Obligated subjects analyze at least once a year to ensure the internal controls implemented allow them to identify products and services that may be linked to PEPs. They also update PEP information including making sure they are still considered to be a PEP.
- State Contractors and Suppliers: Obligated subjects collect information from clients considered as State Contractors and Suppliers (SCS) in a form designed by the FIU, as an annex to the form used at the beginning of a commercial relationship. A managerial official, appointed by the board of directors or senior management body, authorizes the initiation or continuity of the commercial relationship with the SCS. They report quarterly to the board of directors or senior management body, with a list of SCS client information including, the date of approval of the beginning or continuity of the commercial relationship, name, company name, tax identification, number, type of goods or service provided or supplied to the State and any other agency or entity to which it also provides or supplies goods or services, name of legal representatives and final beneficiary of legal persons or structures. They monitor in a broad and continuous way, the transactions carried out by clients who are SCS. When the obligated subjects identify unusual transactions, they must examine and determine if they are suspicious, with all suspicious transactions reported to the FIU. Obligated subjects analyze at least once a year whether the internal controls implemented allow them to identify the products and services in which clients considered or supp update their information and classification status as SCS alongside other details.
- Delivery of Economic Aid. The government created a specific pandemic economic assistance program for the poor and underprivileged. The program is managed by the Ministry of Social Development and the Presidency of the Republic, with controls put in place to adapt the program's procedures and internal controls, to prevent ML/TF, including obtaining identification of the beneficiaries of the economic aid programs.

The FIU provided training for good governance and the prevention of ML/TF, emphasizing financial transactions that would be obtained by the government to help mitigate fraudulent activity from occurring.

## Indicators Identified

79. FIUs were able to identify some corruption indicators identified by the EG and new indicators. However, most indicated that they had not identified any indicators at all.

**Figure 5:** Have FIUs Identified Any of the Corruption Indicators Set Up by the EG? (% of total responses)



80. FIU responses revealed the indicator most commonly identified was primarily Indicator 9: “Legal entities with little or limited experience receiving highly complex and technical government contracts/projects (not compatible with the size or experience of the entity), or receiving government contracts/projects that are not related to their field of business”.

81. Some FIUs identified Indicator 40: “Financial flows, which reveal complex financial mechanisms and intervention by foreign legal entities or arrangements, are received in an account in another jurisdiction, where the account is related to PEPs, their family members or close associates, or other officials.”

82. Some FIUs explained they had come across other indicators not covered by the 2018 EG report.

### Experiences Provided by FIUs

**FIU South Africa** – Elaborated that they identified the following indicators:

- Indicator 9 - Legal entities with little or limited experience receiving highly complex and technical government contracts/projects (not compatible with the size or experience of the entity) or receiving government contracts/projects that are not related to their field of business.

- Indicator 15 - The transactions' subjects are domestic or foreign PEPs, their family members or close associates as defined by the FATF and receive and send unusually large amounts of funds in different currencies.
- Indicator 26 - The purchase of luxury goods, payments for high-cost services, or the receipt of any other benefits by PEPs, their family members or close associates from the contracting authority or a contractor in the period of the execution of the state contract, or immediately after the contract expires.
- Indicator 27 - Transactions occur in accounts of PEP, their family members or close associates, or other officials, involving cash deposits or withdrawals in unusual frequency and amounts.
- Indicator 29 - Purchases of movable or immovable assets by PEPs, their family members or close associates, or other officials, not sourced from salary deposits.
- Indicator 32 - Cash deposits with no rationale.
- Indicator 44 - Open source information can relate specific financial activity to ongoing investigations into individuals and concerns about corruption.
- Indicator 45 - An entity that receives public contracts and its legal representative/s appears in media reports, which link/s him/her/them to corruption or other financial crimes.
- Indicator 48 - Close family members or associates of PEPs, or other officials, are appointed as senior management officials in private companies without meeting the requirements for taking up the position.

**FIU Honduras** – Elaborated that they identified the following indicators:

- Indicator 2 - A specific legal entity or legal arrangement is constantly winning a majority of the largest contracting authority tenders/public procurement bids. Long-term contracts are repeatedly awarded to the same subcontractor without reasonable justification.
- Indicator 3 - The issuance of unreasonable specifications for the performance of the contract.
- Indicator 4 - Subcontractors have familiar director(s) and are related to the contractor's management.
- Indicator 5 - Subcontractors/intermediaries are brought in on business deals once a contract has already been agreed upon and for no apparent reason.
- Indicator 9 - Legal entities with little or limited experience receiving highly complex and technical government contracts/projects.
- Indicator 11 - Funds received by a contractor of public procurements are not spent to fulfill the contract needs.

## Analysis of STRs

83. FIUs reported that the analysis of COVID-19 related transactions and fraud reporting revealed general COVID-19 related trends in ML and fraud, which are consistent with those identified as prevalent by international bodies and other FIUs.
84. Regarding the trends identified, the COVID-19 pandemic created new criminal opportunities in the virtual currency space. Counterfeiters focused on selling fake COVID-19 home test kits and pharmaceuticals. Others offered unconfirmed and often false advice on COVID-19 treatments on the internet and the darknet, with transactions conducted using virtual currencies. The increased use of online services during the pandemic also enhanced the risk of cybercrime.
85. Cybercriminals exploited the current situation to target individuals, businesses, and entities with COVID-19 variants using prevalent phishing and blackmail scams, increasingly directing victims to send virtual currency for donations and ransom payments. General ML and fraud trends observed—including the increasing use of virtual currencies, leveraging mules (often the victims themselves) and use of products and services offered by FIs—will likely continue for laundering of COVID-19 fraud proceeds.
86. COVID-19 has increased specific fraud categories, which criminals have adapted from existing schemes. Reporting indicates an increased reliance on virtual currencies and traditional payment methods offered by FIs (i.e. credit card payments, eTransfers, and wire transfers). These related to phishing schemes (including phone calls, emails, and text messages from criminals pretending to be linked to specific benefit businesses, and aimed at directing victims to click a link or open an attachment, which may contain malware or direct them to spoofed websites soliciting personal and financial information), identity frauds, merchandise scams (including offers for the supply of facemasks and other PPE and COVID-19 test kits, unproven cures, and treatments), household decontamination services, significantly discounted transactions involving the sale or procurement of PPE or other medical or hygiene supplies, customers providing payment through virtual currencies, or directing funds to an unrelated third party, especially those in a high-risk jurisdiction, sudden onset and high volume of eTransfers into client bank accounts claiming to be involved in eCommerce (also known as electronic commerce or internet commerce) and use of personal bank accounts for business purposes, particularly those tied to ecommerce platforms.

## Experiences Provided by FIUs

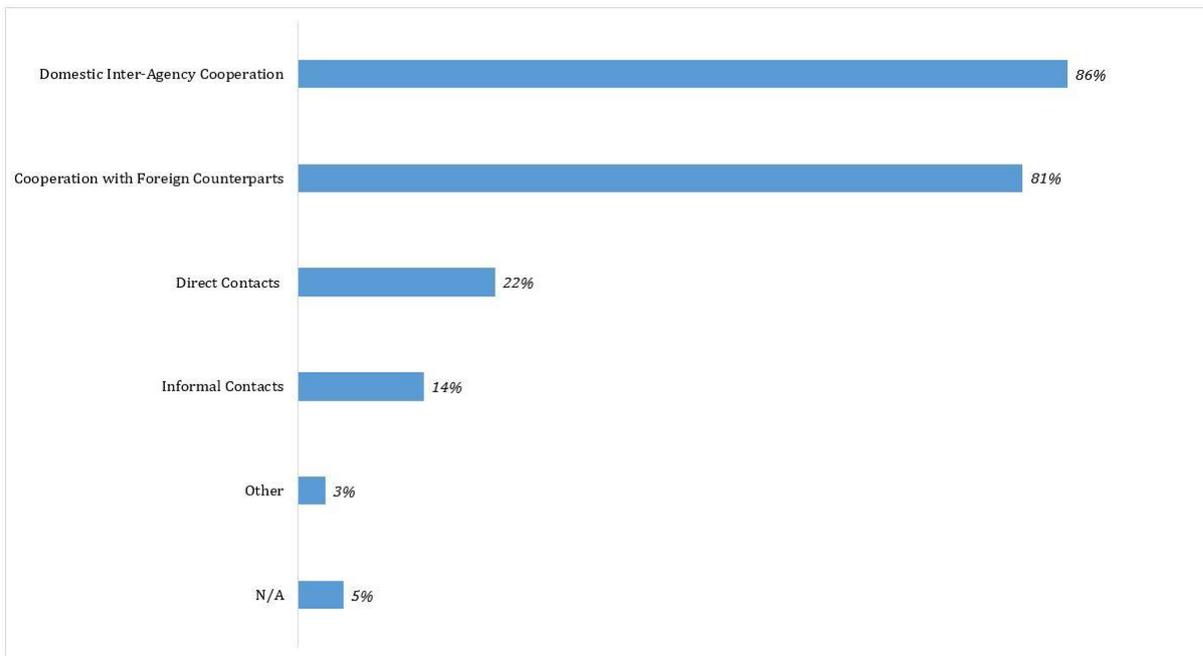
**FIU Italy** – FIU Italy analyzed STRs linked to the COVID-19 emergency in the first phase, the rush to procure health materials placed operators and public administrations in front of a large number of companies, even of small dimensions, which, after hasty reconversions, tried to ensure supplies of masks and PPEs. In some cases, criminal records and reputational criticalities emerged around counterfeit goods or heavily inflated pricing. The involvement in suspicious activities of PEPs or other subjects who would have liaised between public decision-making centers and companies to ensure or facilitate the award of contracts was also noted. Equally important was an organized crime strategy aimed at infiltrating new opportunities offered by the pandemic through companies that were converted to the production or intermediation of sanitary items and made reliable with front names. The subsequent deployment of public interventions to support the economy, through various measures outlined with urgent decrees, brought out further anomalies linked in many cases to the use of self-declarations that, although being necessary to access public funds or guaranteed loans, in fact, allowed many subjects to receive resources in the absence of administrative requisites. The financial weakness of families or companies increases the risk of usury, also as a tool for the infiltration of organized crime into companies. This risk could be mitigated through initiatives to allow the FIU to have adequate information about the start-up and transfer of commercial activities.

**FinTRAC Canada** – The FIU performed an analysis of STRs containing a reference to COVID-19 to primarily highlight general ML suspicions based on the nature of transactions conducted and suspicions of the laundering of fraud proceeds. In a specific communication on Typologies and Trends identified, some characteristics of STRs related to COVID-19 were highlighted to be examined in conjunction with additional risk indicators. In particular, the impact of COVID-19 explained transactions as atypical or not in-line with the client's financial profile or for clients being unable to comply with reporting entity requests or conducting transactions that appear at odds with the pandemic situation (large currency exchanges for unclear purposes, large cash deposits where the source of funds is unclear, or not plausible given the current pandemic situation, transactions involving business accounts which appear at odds with the pandemic situation, etc.). In addition, elements were provided to detect transactions deemed unlikely given the business profile and the anticipated impact of the COVID-19 pandemic on the operating model (e.g., restaurants, bars, gyms, travel industry, etc.), unusual large cash deposits to business accounts, particularly in sectors most impacted by the COVID-19 pandemic, activities which could be indicative of the laundering of proceeds from fraudulent activities or of an illegal attempt to profit from the pandemic.

## Cooperation

87. Despite concerns that delays could occur because of the organizational changes FIUs needed to make, the converse was true, with domestic inter-agency cooperation and exchange of information increasing significantly as a result of more articulated forms of collaboration with LEAs and judicial authorities.

**Figure 6:** Which Mechanisms for Bilateral/Multilateral Cooperation do FIUs consider crucial in Relation to the COVID-19 Pandemic? (% of total responses)



### Experiences Provided by FIUs

**FIU Italy** - Steps have been taken to enhance the cooperation with other authorities and institutions involved in the AML/CTF system. Methods of selection, classification, analysis and sharing of STRs directly linked to the health emergency were immediately agreed upon with investigative bodies, which allowed them to start investigations and prosecutions. According to the rules governing the cooperation between FIU Italy and the DNAA (National Anti-Mafia Directorate of Italy), measures were taken to verify the presence, in the databases of the DNAA, of names contained in STRs relating to COVID-19 and to share them with the competent LEAs. Based on the intense collaboration developed in the period of the most stringent health emergency, a new memorandum of understanding with the DNAA was signed aimed at further improving and automating

the information sharing processes, with time-saving sharing methods successfully tested during the emergency.

88. The pandemic's global impact and government emergency response plans increased the risk of corruption worldwide. The possible adverse effects on recovery initiatives suggest in all jurisdictions that strong collaboration and coordination between institutions involved in safeguarding legality and integrity is required to define common strategies, and discover new indicators and reactive tools.
89. At the European level, it is worth mentioning the launch of the European Public Prosecutor's Office, operational since June 1, 2021, as an independent body of the EU charged with investigating and prosecuting crimes affecting the financial interests of the EU, such as fraud, corruption, ML, cross-border VAT fraud. The EU institutions, bodies, and the competent authorities of the 22 Member States that have joined the EPPO must report any criminal conduct to the detriment of the EU budget. Individuals can also report suspected cases of fraud and other crimes. This could be a relevant instrument to improve the effectiveness of cross-border investigations and affect the role of FIUs and their financial analysis in support of cross-border investigations and activities aimed at implementing judicial seizure orders in cases of operations at risk of ML.
90. It is also important to recall the work done in the ACWG (G20 Anti-Corruption Working Group) under the Saudi Arabian and Italian Presidencies, which represents a significant opportunity to promote the development of shared principles worldwide. In particular, under the 2021 Italian Presidency, countries' efforts and commitment have been focused on the definition of high-level principles on the relationship between corruption and organized crime and the prevention and fight against corruption in crisis or emergencies.
91. In this context, in April 2021, a joint ACWG-FATF event was held (almost five years after the previous one), offering an opportunity to reflect on ways to strengthen the transparency of beneficial ownership of legal entities for the fight against corruption and ML. The meeting highlighted the need to complete the creation of the central registers of beneficial owners as sections of the business registers and to ensure access to data and accuracy in their keeping and constant updating of information. The meeting was also attended by the Chair of the EG, who highlighted the importance of FIUs' contributions to the fight against corruption.

## Successful Practices and Challenges for the Future

92. The COVID-19 pandemic revealed many shortcomings in jurisdictions' level of preparedness. The crisis has forced all relevant stakeholders in their respective fields to reassess and restructure their operations, and the global AML/CFT community of practice was no different. While we are still living with the COVID-19 pandemic, it is vital to collect and share all partner experiences too, first and foremost, assist others through the sharing of best practices and increase jurisdictional preparedness.

## Cases

**FIU Italy** - In March 2020, a company received two wire transfers of a total amount equal to € 27 million, ordered by Civil Protection for a supply of facemasks. The company's beneficial owner was a former member of the Italian Parliament; the wire transfers were unusual for the company dimension and ordinary bank account transactions. UIF analysis revealed that the basis for the mentioned operations was represented by two orders of facemasks, which were identical except for the protocol number; as they were made within the COVID-19 urgency legislation, the company was exempt from presenting the surety. The company received wire transfers from other public institutions, too, with the exact reasons for payment. UIF cooperated with the Judicial Authority on the case, carrying out a deep analysis related to the company bank account and the accounts held by the beneficial owner and her family members. UIF activated the postponement power regarding the issue of some checks by the company, enabling the Judicial Authority to seize the bank account, and monitor the attempts of financial movements on bank accounts held by linked physical and legal persons. The requisition of many masks was disclosed in multiple press articles.

**FIU Ecuador** - The most representative case that arose in the course of the pandemic was the granting of 6 contracts for medical supplies to people who did not have the experience or the resources to be awarded them; in fact, few began their financial movements days before contracts were awarded.

Money entered into these people's accounts from person A and from person B money used to open a policy that supports 5% of the total contract with Public Hospital X.

After the disbursements of money for the contracts awarded to the six people indicated above, they returned the funds deposited by person A and person B plus an extra amount to the accounts of person B, who turned out to be the brother of the Medical Director of the Public Hospital X.

**FIU South Africa** - The FIC analyzed a PEP. It was established that an entity linked to the PEP received COVID-19 relief funds to provide the Department of Education in South Africa with PPEs. This was done without the proper procurement processes being followed. The entity was ordered to return the funds with interest to a South African Law Enforcement Department.

### Lesson Learnt and Challenges Identified

93. The crisis generated from the COVID-19 pandemic has been not just a health and economic crisis but a corruption crisis too.
94. The funds available within government or legislative programs to support economic recoveries will inevitably stimulate criminal appetites. Once again, it will be necessary to ensure adequate protection against the risks of illegal activities related to public interventions, which will request FIUs to continue their preventive action along the lines already tested during the pandemic.
95. The reporting system will play a relevant role in detecting suspicious transactions, thus guaranteeing the economies' legality and public interventions' transparency.
96. The requests for simplifying public procurement regulations increased to speed up award and implementation times and reduce intervention costs. Also, in this area, the AML system can offer support to LEAs without hindering or slowing down operating systems. In particular, it should be recognized that every subject involved in public procurement procedures, including public administrations, is also placed in a position to best exercise the AML tasks. Among other things, they should have the possibility of acquiring information on the beneficial ownership of private counterparties. The introduction of suitable mechanisms for public administrations involved in public procurement procedures to report suspicious transactions to FIUs should also be considered.
97. The challenges awaiting the global FIU community in the coming years are sure to be particularly demanding.
98. It will not be easy to deal with new threats without reducing attention to long-present threats in the systems, but the pandemic has shown that many FIUs are able to rethink their institutional action, making it increasingly effective.

99. FIUs must be committed to the continuous search for the most efficient operational and organizational solutions. It remains fundamental to pay attention to the exploitation and expansion of information technology assets available to respond to new threats and better assess suspicions reported by reporting entities. FIUs are therefore encouraged to implement innovative IT projects to address continuous increases in reporting volumes, diversification of activities, and new challenges that they face, including, but not limited to:
- Countries/entities subject to sanctions potentially taking advantage of the disruption caused by the COVID-19 pandemic to conduct proliferation financing
  - The optimization of the preventative measures in order to prevent and prosecute cases of ML resulting from corruption derived from the COVID-19 pandemic
  - The effectiveness of collaboration and new information-sharing mechanisms implemented to enable broader collaboration with public and private sector entities
  - The full exploitation of the results of supervision activities, including off-site inspections

### An Ongoing Process

100. It is worth noting that the FIUs reaction mainly refers to the early stage of the pandemic, which has been quite different from the current scenario and could look much different in the years to come.
101. Nevertheless, the COVID-19 pandemic has already tested FIUs' capabilities to adapt to rapid changes dictated by a global crisis – a situation most have successfully navigated to date.
102. Corruption, like most other forms of illicit behaviours, thrives in times of crisis and chaos. It is imperative that FIUs, which are the first line of defence against these phenomena, continue to quickly adapt to new scenarios and hold their ground. This is, especially true regarding the COVID-19 pandemic, as the failure would not only let criminals gain a foothold in their quest of manipulating financial assets, but also deepen the effects of the crisis experienced to date.
103. FIUs' experience has shown a mixed picture concerning their perception in relation to corruption-related activities and the risks posed, as well as the responses enacted and lessons learned.
104. However, learning from one another, and sharing experiences and insights will position FIUs in a very vital, yet demanding position to enhance their capabilities and navigate the ongoing implications of the COVID-19 pandemic and/or future crises experienced.