

COVID-19 and Business Integrity

Guidance for Financial Institutions

The pandemic presents heightened business integrity risks which financial institutions should proactively manage.

The impact of the economic upheaval stemming from the coronavirus crisis presents significant business continuity challenges. During a crisis of this nature, financial crime risks are elevated due to staff shortages or resources being diverted to manage emergency operational issues or customer requests, for example loan repayment deferrals. This can result in shortcutting procedural compliance safeguards with potential for an increase in fraudulent activity such as phishing scams, insider trading or internal staff theft as well as the potential for sanction breaches and money laundering through reduced oversight of know your customer (KYC) controls and decreased compliance monitoring.

Agencies such as the Financial Crimes Enforcement Network (FINCEN) have advised all financial institutions to be on high alert for a potential increase in “illicit financial activity” and issued guidance on reducing financial crime and misconduct. As the current situation evolves, financial institutions will be monitoring the impact on their portfolio, including an increase in credit and liquidity risks and other operational and financial crimes risk concerns. Several regulators in emerging markets such as the Reserve Bank of India have advised on the formation of a quick response team or crisis management group to provide regular updates to senior management and act as a single point of contact with regulators and external agencies.

Financial institutions should remain vigilant, if not already, during the pandemic as any regulatory or compliance breach can have an impact on the reputation of the company with financial and operational implications which may last beyond the crisis. Organisations should ensure that compliance risks remain paramount, particularly as financial pressures increase and opportunities for savings are identified.

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Important note

CDC Group plc (CDC) is the UK's development finance institution and not the US Center for Disease Control and Prevention. This guidance does not constitute medical advice and is not a substitute for professional advice from international public health organisations such as the World Health Organization, national public health authorities, and national governments, which should be consulted for qualified and more detailed information.

Disclaimer

This guidance is for general information only and is not intended to be used and must not be used as legal, commercial or business continuity advice, whether generally or in relation to any specific company, risk or other COVID-19 related issue. The contents of this guidance are based upon conditions as they existed and could be evaluated as of 7 May 2020 and CDC does not undertake any obligation to update any of the information or the conclusions contained herein or to correct any inaccuracies which may become apparent.

To manage financial crimes and misconduct in the current environment, financial institutions should consider following following best practice:

- **Communication:** Senior management should emphasise that the institution's commitment to compliance and integrity risks remains strong during and after the pandemic. The “tone from the top” should be communicated effectively throughout the organisation and institutions may consider online training modules or workshops to ensure compliance with financial crime regulatory requirements and the company's code of conduct or ethics.
- **Financial crimes compliance:** The crisis management group, if formed, should include compliance personnel responsible for identifying key risks arising from the current pandemic situation. Although credit, liquidity and operational risks will remain fundamental, business disruptions and work from home scenarios may impact a financial institution's ability to conduct anti-money laundering, anti-corruption, and sanctions screening due diligence. The Financial Action Task Force (FATF) recommends financial institutions utilise the flexibility built into the standard risk-based approach to manage financial crimes compliance risks whilst remaining alert to new scenarios posed by the COVID challenge. In such instances, it is important for institutions to ensure risk and compliance functions have access to relevant systems. Institutions should also remind staff of the importance of reporting suspicious activity and of whistleblowing procedures and continue to ensure effective transaction monitoring especially for customers in high-risk sectors vulnerable to exploitation by bad actors or fraud.
- **Internal controls:** During the crisis, financial institutions may revise and speed up approval mechanisms for various internal control processes for payment authorisations, procurement, credit decisions etc. which could increase regulatory and financial crime risks. Flexible processes may increase efficiencies, but the management should have visibility on any integrity risk issues and establish good governance systems by not overly diluting internal controls and including risk-based compliance approaches such as documenting exception processes and reviewing key controls during this period. Prioritising risks and updating guidance to employees will be an important part of the communication strategy. On-going reporting to senior management on how these risks are being managed is also important.
- **Cybersecurity:** Institutions may face increased cybersecurity risks such as malware attacks and data breaches through personal devices that lack the same protection as office devices, or through online communication tools used for business processes. The organisation should ensure that information technology tools used by staff are secure and regularly updated to prevent security breaches. The staff should be made aware of cyber risks and preventive steps in managing these risks as remote working becomes prolonged in some circumstances.
- **Transparency:** As a behavioural change, employees at institutions (across all sectors), might be tempted to downplay risks of serious fraud and misconduct incidents to investors or regulators. Failure to report adequately to investors, regulators or other relevant counterparties or downplaying actual risks may result in disclosure violations, accounting issues and reputational risks. Therefore, it is pertinent for senior management to ensure continuity of a transparent culture within the organisation to manage any such challenges.

Note

This guidance should be considered alongside relevant local laws and regulations, with CDC investees complying with the latter always. This document is not intended to provide advice on business continuity or other business risks that companies may face as a result of COVID-19. If you are facing or anticipate any risks to revenue or business continuity, please speak to your CDC investment lead.

More information about CDC's response to COVID-19 can be found on our [website](#).