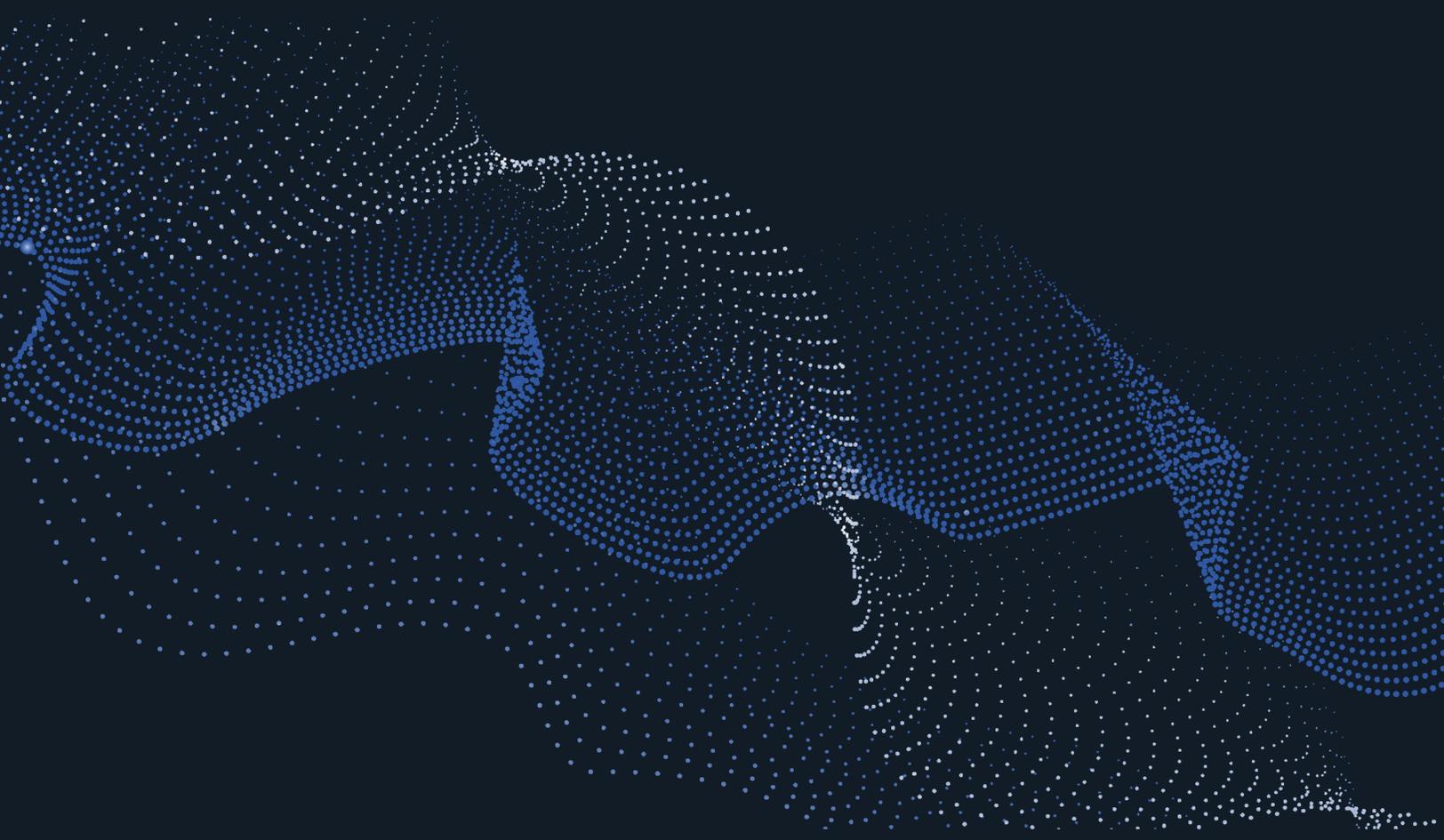


COVID-19

How to Set Up Your Compliance Function During Crisis



CONTENTS

03

PREFACE

05

RECOMMENDATIONS

07

CONCLUSIONS

Financial crime remains unacceptable, even in times of crisis such as the COVID-19 outbreak.

EBA, "Statement on actions to mitigate financial crime risks in the COVID-19 pandemic", 2020

PREFACE

CHALLENGES

COVID-19's rise has created significant shocks to the global financial and economic landscape. It has changed, at least for the time being, the way we work and communicate and has introduced new challenges for organizations operating across the globe. On April 9, 2020, Sigma hosted a virtual global roundtable, bringing together leading industry experts to discuss COVID-19's impact on compliance and ways to navigate risk during times of crisis. In case you missed it, you can listen to it here on the [Sigma podcast](#).

Responding to New Threats

Over the last few weeks, new compliance threats have emerged as a result of the pandemic. It is critical for compliance management and staff to respond to the new pressures and threats while remaining vigilant in their compliance approaches.

Government Loan Programs Bring Pressure

Government programs to support SMEs impacted by the crisis, such as CBILS in the UK and the CARES Act in the US, have led to a dramatic increase in SME lending with pressure from the government to disburse funds as quickly as possible in order to keep the economy afloat. In the US, politicians and institutions have publicly criticized the Treasury department for its decision to require compliance with Know-Your-Customer (KYC) obligations in disbursing the funds. According to [Brookings](#), it's one reason why banks have limited loans to existing customers as *"KYC is a costly and time-consuming process and puts the risk of error on the banks' shoulders."*

But it doesn't necessarily have to be that way with the rise of RegTech and efficiencies associated with its innovative solutions and technology.

PREFACE

CHALLENGES

Regulatory Expectations

As far back as 2018, and in the absence of a pandemic, FinCEN and its regulatory partners issued a [joint statement](#) to encourage banks and credit unions to take innovative approaches to combating illicit finance, and emphasized that issues associated or gaps identified with the new technology won't necessarily result in supervisory criticism.

In fact, FinCEN [recognized the challenges of operating under business as usual](#) during the pandemic and has delayed the submission of certain reporting requirements and relaxed beneficial ownership requirements for existing customers.

Yet, although FinCEN and other regulators like the [EBA have made some concessions](#), they have emphasized that "financial crime remains unacceptable" and compliance can't stop during a crisis. This was reinforced by the former Director of OFAC and FinCEN during Sigma's Virtual Town Hall last week. According to Bob Werner, regulatory requirements don't stop during a crisis and institutions need to recognize that regulators "have the ability to time travel." In other words, when the dust of the crisis has settled, the regulators will be investigating to ensure that proper measures were taken despite the crisis times.

Regulators, historically, have shown the
ability to time travel.

Robert "Bob" Werner, "Navigating Risk in Crisis", Sigma Ratings ,
Virtual Global Compliance Roundtable, 2020

Practical Solutions for Setting up Your Compliance Function

Work from home and stay in place orders have dramatically changed the way we work and live - a change that has not shielded compliance personnel. Whether it's embracing new video conferencing technology like Zoom, the current situation has highlighted the need to leverage technology as part of both business as usual processes and business continuity plans. Day to day compliance workforce considerations have had to change quickly and increased cyber security risks have become prevalent.

Adjusting to Work in Times of Crisis

For many corporations, particularly banks, the move to a remote workforce has been a dramatic and disruptive shift. All bank functions - not just compliance - should consider this time of remote work as a testing ground for new ways of working in the future. Yet, making investments today to replicate an office environment for a remote workforce can have long-term benefits of reduced overhead costs and increased efficiencies. Below are a few suggestions on how to maximize your compliance function in a remote environment.

1

New Allocation of Resources: During times of increased responsibilities and fewer resources, focus and prioritization are critical to staying on top of your regulatory requirements. Considering this, compliance functions should consider new allocation of resources across different areas of the compliance function. Creating a culture that allows for deviations from existing business practices may also be needed to allow for the flexibility necessary to meet increased demands.

2

Automate Where Possible: Compliance teams should leverage technology to automate and/or speed up manual tasks. Now is a good time to test new technologies to see how they might help with increased obligations. RegTech firms are currently offering [free or discounted services](#) during the COVID-19 crisis to assist teams in meeting regulatory requirements in a fast, cost effective manner.

3

Educate Employees: Providing employees with adequate education on new risks and potential cybersecurity scams is necessary to ensure consistency across the compliance function. Teams must be willing to invest time and money into training and communication technology.

Recommendations

Specific Techniques for Fighting Financial Crime

The proliferation of regulatory technologies promises to support compliance functions in meeting these demands. How can banks shift procedures to allow for manual compliance tasks to be automated and completed in a cost-effective manner so compliance officers can stay focused on fighting financial crime?

1

Tune Systems for Pandemic Specific Risks: For behavioral-based Transaction Monitoring Systems, tune the rules to reflect activity expected during a pandemic (ex. discounting alerts on when a customer's activity decreases by a specified amount). Ensure all changes are documented for regulatory reasons. Refine transaction monitoring rules to align with the typologies you might expect to see in a pandemic, such as benefits fraud, charities fraud, and cyber-related fraud.

2

Shift Resources: In times where resources are constrained, focusing resources on the most time sensitive tasks is critical. For *intelligence/investigations*, shift resources from the intelligence units, which are usually tasked with proactive reviews (identifying new trends and typologies), to investigations units, which handle reactive reviews (transaction monitoring alerts, legal and regulatory requests). For *sanctions*, shift from sanctions advisory functions to sanctions alert clearing.

3

Use Technology to Prioritize: Investigation and disposition of alerts are time consuming, resource intensive tasks. Utilization of alert prioritization technology, such as Sigma, can ensure analysts are prioritizing alerts that expose the bank to the greatest risk - and spending less time reviewing those which are lower risk.

4

Reduce QA Processes Where Possible: If documented in the function's business continuity plan, reduce quality assurance processes from 6-eye to 4-eye reviews, and shift additional resources to first-level alert clearing.

In line with the FATF Standards, the FATF encourages the use of technology, including Fintech, Regtech and Suptech to the fullest extent possible.

*See link: <https://www.fatf-gafi.org/publications/fatfgeneral/documents/statement-covid-19.html>

CONCLUSION

Invest in Future-proofing

For institutions that have adjusted well to the crisis, it's important to note that regulatory expectations with respect to business continuity planning have only increased, and appears to be an emerging focus [as evidenced](#) by the New York Department of Financial Services' justifiably onerous requests throughout this pandemic. While the adjustments made might not be ideal, this pandemic appears to be an opportune moment to increase an institution's resilience, and utilize it as a competitive advantage in this increasingly complex and ever changing interconnected global system. Using this 'downtime' to retool outdated systems with newer innovative platforms will help to uncover new growth opportunities in the shifting landscape. Successful organizations will transform the need to find new ways of working and turn them into new permanent ways to make their teams even more efficient when the global economy comes back online, thus preparing themselves for regulatory audits on how they performed during this crisis, future-proofing their programs.

SIGMA RATINGS

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