



## **GAFILAT statement on COVID-19 and its associated ML and FT risks**

Buenos Aires, Argentina, April 8, 2020.

Given the current situation posed by the COVID-19 pandemic, the international community has taken measures and applied resources in order to mitigate as much as possible the impact of this phenomenon on the population. In this necessary effort, some measures or controls aimed at preventing and combating Money Laundering (ML) and the Financing of Terrorism (FT) and proliferation (FP), could be affected and therefore possible threats and/or vulnerabilities arise in the Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) systems implemented by the different stakeholders in the different jurisdictions in the world.

GAFILAT considers it is imperative to evaluate the possible emerging risks resulting from the global health situation in order to prevent criminal organizations from taking advantage of this unfortunate global situation. In response to that, GAFILAT has been monitoring the actions and measures that its member countries, the international community and the FATF have taken in response to the current situation and has identified certain challenges.

In this sense, this regional body urges its member countries and the international community in general to collaborate closely with the private sector and the various relevant stakeholders in order to strengthen AML/CFT systems using a risk-based approach, to better address the threats and vulnerabilities that may emerge due to the current global situation.

As a result of the monitoring work that has been carried out with the member countries and with the international community (especially in accordance with the measures reported by the FATF), some phenomena that could turn into LA/FT risks derived from the COVID-19 pandemic have been identified:

- Due to the economic uncertainty and fears caused by the pandemic, an increase in financial fraud and scams and the offer of fraudulent investments in Ponzi schemes are anticipated. Likewise, given the high demand for supplies to be able to manage the health problem, we foresee schemes associated with the illegal traffic of related merchandise, adulteration of medications and medical implements, as well as the sale of these supplies that do not comply with the standards required by the health sector regarding: masks, medicines, suits, gloves, etc., and the overpricing of these supplies given the high world demand and low availability.
- Likewise, most governments in the region have approved financial aid plans, both for companies and for the common citizens, anticipating possible fraud and scams associated with them, as well as data theft for illicit access to accounts from banks, through phone calls and fake websites, etc.
- A possible spike in corruption-related crimes is anticipated, for example, given the current reality, governments must **allocate** large sums of money to acquire the supplies required by the health sector to face the pandemic. Due to the need and urgency of a national state of emergency, the procedures for acquiring goods are more flexible, which translates into a greater risk of corruption.



- A substantial increase in remote or non-face-to-face financial operations and purchase of products and services by electronic or online means, which could be used by criminals to carry out fraud and cybercrime. The increase in approvals with more relaxed controls to carry out business relationships by the reporting entities, in order to maintain their clients, increases the risk of abuse. The risk of ML and FT increases exponentially in the face of a decrease in the compliance staff of the reporting entities.
- A reduction in the volume of suspicious transaction reports received and a delay in obtaining additional information required for the ongoing analysis or investigations is anticipated.
- In order to obtain funds and resources to cover basic needs, people may increase the use of pawn shop services, lenders, as well as informal financing means that, therefore, could be more susceptible to be used in illegal activities, specifically for ML/FT. Situations of usury or abusive practices of various kinds may also emerge.
- Derived from the people's economic needs and the lack of formal and informal employment, as a result of the economic inactivity generated by the health crisis, criminal organizations could be increasing the recruitment of people to support them in executing their criminal activities that generate resources susceptible to being laundered.
- Reduction of staff that may temporarily impair the capacity for ongoing analysis or research.
- Temporary reduction of the AML/CFT supervisory officers, which may impact the scope, depth and frequency of the supervision of the reporting entities.
- Possible risks related to the misuse and abuse of Non-Profit Organizations (NPOs), due to the increase in their activity.
- Challenges in the operation of the private sector due to the temporary suspension or reduction of functions that involve the face-to-face activity of its human resources, which could hinder the optimal maintenance of its AML/CFT systems; and
- Due to the temporary or intermittent closure in some of the financial services and activities and financial sectors, new challenges could arise to ensure that the reporting entities are complying with their AML/CFT obligations, so the need to establish new supervision strategies could rise.

On the other hand, in order to guarantee the legitimate functioning of the different sectors, especially those of vital importance posed by this health crisis, the following good practices and mitigating measures were identified in response to the common problems faced by the countries of the region and the international community:

- Maintain constant contact between regulators, supervisors, financial intelligence units, police authorities and other relevant authorities in order to provide guidance and assistance to the private sector on how to apply national AML/CFT regulations and regulations during the current crisis.
- Also, maintain remote communication with the reporting entities, in order to identify new trends and risks, and agree on measures to mitigate those risks in a strategic manner and according to the risk level. Issue public communications warning of potential threats and abusive practices associated with the COVID-19 crisis.



- Strengthen the application of the risk-based approach to AML/CFT supervision.
- Encourage the application of a risk-based approach to simplify measures to detect lower risks and strengthen them when high risks are detected.
- Guarantee, as much as possible, the operation of relevant authorities using technologies to perform remote functions, digital signatures and establishing guards for essential activities that require the physical presence of officials.
- Promote the responsible use of digital financial and non-financial services, keeping a balance between access to said services and the AML/CTF measures;
- Pursue greater and better monitoring and transparency in financial transactions, especially wire and international transactions;
- Strengthen international cooperation between competent authorities, particularly through decision-making and expeditious mechanisms, in order to share good practices applied in the context of this crisis, information on emerging threats and vulnerabilities, and effective measures to mitigate them.
- Encourage the use of digital identity, as appropriate, to assist financial transactions and virtual assets, seeking to implement AML/CFT measures with a risk-based approach;
- Strengthen monitoring of operations carried out by Non-Profit Organizations (NPOs) in order to guarantee donors that their contributions will reach the intended beneficiaries; and
- Ensure the integrity and proper functioning of banks, money transfer entities and other financial sectors through technological measures that ensure due diligence based on their clients and users' risk, as well as on the different products and services they offer;

Likewise, as part of the continuous monitoring exercise of GAFILAT Executive Secretariat towards its member countries, close communication has been maintained with the contact points of the GAFILAT Asset Recovery Network (RRAG), in order to support any kind of support, to facilitate a timely and accurate response to requests for information. In this regard, GAFILAT recognizes the efforts made by its member countries to ensure that the competent authorities continue to carry out their work in this challenging time, and urges them to keep using the tools available to provide international cooperation within their possibilities, giving priority to urgent requests.

In conclusion, GAFILAT shares the global concern regarding the current health crisis and is sensitive to the current priorities of its member countries to combat the COVID-19 pandemic. Therefore, a call is made not to let our guard down and to continue collaborating, now more than ever, in order to address the current challenges and ensure that this phenomenon is not exploited by criminals and organized crime to get stronger and become a greater threat to our people.

We will keep working with determination together with the member countries and the international community to monitor the situation in order to implement the proper strategic measures to respond to this global emergency. Facing the challenge to comply with international AML/CFT standards, we must aim not only to restore the level of compliance before the COVID-19 pandemic, but also to build the foundations for strengthening the AML/CFT systems in a continuous and sustainable way even in these times of crisis.

We will continue to coordinate through the Presidency, and we will ask member countries and the international community to keep supporting and reinforcing these efforts.