

Combatting fraud in the time of COVID-19: a consumer markets perspective

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The COVID-19 pandemic has given rise to a new pernicious threat: fraudsters, who prey on vulnerable individuals/ organisations and seek to exploit this dreadful humanitarian crisis for their own benefit. Organisations will therefore need to be vigilant and build robust mechanisms to thwart fraud in these difficult times.

Among the various sectors, consumer markets have been deeply impacted as stringent lockdowns have brought economic activity to a standstill. Waning demand for non-essential products and disruptions in raw material supplies have squeezed the profitability and cash flows of several organisations in the sector. Demand could also take a hit as salary cuts and job losses constrict the purchasing power of consumers in the wake of the virus outbreak. Even as the consumer markets sector has been facing major operational challenges, it has triggered more opportunities for organised criminals to defraud consumers and organisations.

Organisations and consumers need to be on their guard about various kinds of fraud and other wrongdoings that could emerge as a result of the pandemic.

- **Sales and distribution** – the misuse of schemes, undue price inflation due to hoarding of essential products, and the sale of damaged, expired or counterfeit products owing to perceived shortages of essential products during the lockdown
- **Fake online websites/social media accounts** may attract consumers to pay upfront for the products. After receiving the payment, fraudsters pocket this money without delivering the products
- **Kickbacks, bribes and conflict of interest scenarios** relating to the procurement of material and services due to restrictions on import and transport
- **Cyber frauds due to increased remote working and augmented digital transactions** following the lockdown of brick-and-mortar outlets
- **Reduced focus on compliance that triggers contravention of laws and regulations**, on account of the increase in operational challenges and remote working
- **Rise in financial disputes** resulting from cash flow challenges and other business disruptions. These will be seen between organisations and lessors, service providers, channel partners and retailers.

Rising cases of COVID-19-related fraud, in turn, could impact the overall governance and transparency, distort markets and shake the trust of the investment community. Organisations, therefore, should consider both reactive and preventive measures, as highlighted below to shield themselves from losses.

- **Root cause investigation** into any indications, complaints or suspicions pertaining to potential fraud and wrongdoings. This activity will enable the management of organisations to take timely corrective action and prevent financial and reputational loss.
- **Proactive reviews** of the processes to assist the organisation to avoid or mitigate fraud losses while also helping cost optimisation. These reviews also help to enhance the reputation of an organisation, which

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would be seen as a brand that proactively seeks to prevent fraud and criminal activities by identifying and eliminating the loopholes and gaps in the implemented processes and tools.

- **Diagnostic risk review on adherence to the defined Anti-Bribery and Corruption (ABC) framework.** Additionally, during the review, the organisation could identify transactions, if any, incurred by either the organisation or third parties associated with it during the lockdown period that contravene ABC laws and regulations.
- **Root cause investigation of cyber incidents.** In case of a cyberattack, the organisation should not dismiss any breaches or incidents, and should promptly and diligently investigate the root cause, as well as take steps to secure itself and guard against further attacks.
- **Awareness sessions** for employees on fraud prevention and detection; risks and prevention of cyberattacks; bribery and corruption risks and importance of compliance with ABC laws and regulations.
- **Due diligence of new business partners** appointed by the organisation to ensure that they conduct business only with business partners who work ethically and do not impact the organisation adversely from the viewpoints of business continuity, legal and government actions, reputational damage or any other regulatory issues.

In summary, the COVID-19 crisis presents an opportunity to build a strong security architecture and minimise the risk of fraud in consumer markets. Authorities, consumers and organisations will need to take decisive actions and follow the best practices to stay ahead of this new scourge.

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