COVID-19: Financial Crime Rapid Risk Assessment – considerations for lenders

In the wake of COVID-19, it is important to consider how best to conduct rapid risk assessments, to allow you to quickly and effectively identify commercial, regulatory and financial crime risks of those to whom you intend to provide loans. This facilitates your approach to supporting customers and communities in a fast-moving environment.

The impact of COVID-19 is unprecedented and has resulted in the need for banks to react in a swift and agile manner to support their existing and new customers. Inevitably there are some who wish to capitalise on this uncertainty by using COVID-19 as a way of making illicit gains. With the evolving government announcements of initiatives to support businesses and individuals, banks must be aware of the speed and determination in which criminals will move to take advantage of the financial system.

An evolving environment

The environment is evolving significantly, almost on a daily basis and with this brings about risks specific to the due diligence / KYC space. With the introduction of new economic incentives and programmes, including the **Coronavirus Business Interruption Loan Scheme (CBILS)**, many banking institutions will be seeing enormous influxes of applications for new loans, products, and accounts. At the same time, this new climate will usher a shift in the types of risks that need to be considered, leading to an increased focus on financial history, industry stability and emergency response. Banks and other financial institutions may often be required to process additional paperwork and undertake additional checks, including viability and financial stability checks. Despite these rising complexities, the need to conduct vital due diligence rapidly will be more crucial than ever.

Key requirements

In order to navigate these uncertain times, Banks that are responding to the COVID-19 loan programme will have to adapt new approaches to quickly and effectively identify risks among their potential customers. This will include:

Streamlining KYC requirements to focus on most pressing issues during the current climate, including **industry, jurisdiction, activity and credit risk** in order to conduct thorough and precise risk assessments

Consolidating customer data into one **single reference point** for quick review so as to process more applications and not affect vital business-as-usual operations

Leveraging technology to help ease operational impact and minimise blockages, helping Banks provide vital funding to those who need it most within days, not months

Bolstering processes to be more agile and removing dependencies, in order to maximise operational efficiency and provide a high level of customer support

Key areas of focus for Banks looking to assess customer risk during this time will be:

- Validation of business and trading activity – is the applicant in fact a trading entity?
- More nuanced look at industry / SIC code – how sensitive are their operations, particularly in response to the disruption of COVID-19?
- Financial stability – what is their credit history like? Have they been subject to credit downgrades, or reporting of layoffs / hiring freezes?
- Reputational risk – how have they responded to the current crisis? What is their public perception?

A rapid response is critical, so it is key that any changes made to systems or processes can be deployed with minimal effort and disruption. These new solutions should also be designed to be easy-to-use, auditable, accessible and future-proof, so that problems are not created further along the line.

KPMG's Forensic Financial Crime Team have been brainstorming what a robust approach to this new climate might look like.

Principles of an approach

Secure, self-service user interface allows Bank teams to initiate ad-hoc requests, 24/7

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Solution conducts due diligence across thousands of web sources, specifically tailored to the current climate

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Screening response received and state-of-the-art filtering applied to focus on most key issues, streamlining response

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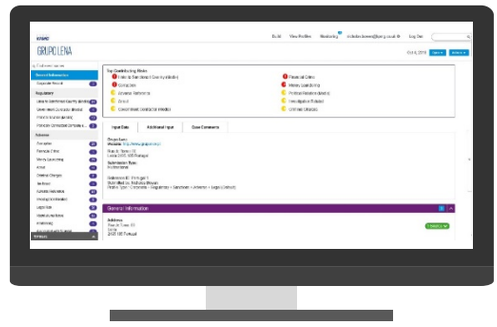
Results of screening available in minutes, to allow business to carry on uninterrupted

Key elements of what bespoke risk analysis might cover:



— Validation of company registration, confirming:
  - Legal name
  - Registration number
  - Registered address
  - Date of incorporation
  - SIC code
  - Credit score
  - Any outstanding filings (depending upon jurisdiction)

— Sanctions / watchlist screening on potential customer

— Targeted adverse media screening, to identify financial crime issues or financial instability issues

— Screening of corporate entity against core regulatory lists and credit check databases

— Overall profile risk rating

Key elements of a successful approach:

— Implementing a web-based application which can be used as a standalone or integrated into systems further along the line to maintain continuity

— Conducting follow-on, targeted due diligence where necessary.

— Harnessing of suitable technology that can be deployed rapidly and to scale without issues

— Using a tried-and-tested solution with ongoing monitoring to provide 24/7 peace of mind

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