



Modern Slavery and Financial Services: Responding to COVID-19



Introduction

The COVID-19 outbreak has been affecting Asia since January 2020. It is now a global pandemic, with over 4.5 million cases detected in 168 countries and over 300,000 deaths globally as of 15 May 2020. Much of the world has implemented severe quarantine measures in an effort to contain the spread of the virus, and these measures have significantly affected many businesses.

This continuing crisis poses a number of challenges, some limited to moving activities online, others much more serious and related to the sustainability and profitability of business in the short, medium and long-term. While corporate professionals go through a major experiment of teleworking, supply chain workers directly employed by companies or by suppliers and sub-suppliers are facing much bigger challenges. There is no doubt that the COVID-19 crisis poses a higher risk to their wellbeing, job security, and basic rights.

COVID-19 has impacted financial services in a range of ways, and the landscape continues to change. New patterns of criminal behaviour and money laundering are emerging, and the ability of financial services to monitor and report suspicious activity is hindered by lockdown measures. Furthermore, the financial impacts of COVID-19 are aggravating vulnerabilities to modern slavery and changing customer risk factors. As the global community reacts to these changing circumstances, so must the finance world, to combat modern slavery and protect business and vulnerable communities from this crime.

Changing Criminal Economies

As every industry and economy is impacted by COVID-19, so is the criminal economy. Human traffickers operate for profits. They exploit people in many ways, from forced prostitution to forced and child labour in industries across the world, defined as modern slavery. As the world locks down, these people are adapting and finding new nefarious ways to exploit others for their own gain. We are seeing evidence of this already, with soaring increases in online fraud, cybercrime, and scams to generate new proceeds where other forms of criminal income have diminished.

This changing criminal economy will be reflected in changing methods used by the traffickers who force people into modern slavery. For example, prior to COVID-19, much of the commercial sexual exploitation was primarily carried out in establishments such as bars, massage parlours, and nightclubs. Transactions were paid for in cash directly, rather than through banking systems. While still challenging to detect, there were a number of mitigating measures that could be put in place, and a risk-based approach could be applied to such establishments where this activity was known or suspected to take place. The changing nature of the commercial sexual economy means that such risk has shifted, and so new threats may emerge and previous risk profiles may become out of date. As exploitation methods shift, so may methods to launder funds and move cash proceeds of criminal activities.

Moving Exploitation Online

It is too early to truly understand the extent of the impact that this crisis has had on the commercial sex world, but we are expecting to see increases in online commercial exploitation. A recent example of such online exploitation can be seen in a current case that has shocked South Korea, referred to as the Nth Room case. This case revolved around the online sexual exploitation of women and girls on the Telegram messaging app. People from all over the world were able to make payments to access the Telegram chatrooms and make requests for the women and girls involved to provide explicit material and carry out violent acts upon themselves. These transactions involved a combination of cryptocurrencies and funds processed through legitimate fiat bank accounts. The women and girls were coerced into this situation through blackmail and fear. Non-compliance could mean that their addresses would be posted online they were threatened with violence and exposure to their families and friends, and psychologically tortured by their traffickers.

The Nth Room case is sadly not an isolated incident – many of these online exploitation rings exist globally. As the spread of COVID-19 has stopped people being able to find their victims and buy services in the streets, we hypothesise that many more will turn to the internet to fuel their desires. Likewise, as the criminals involved start to see how easy it is to reap the rewards of online exploitation with such relatively low risk of identification and

prosecution, we anticipate that this trend is set to increase into the future. The relationship between financial services providers and such online abuse has already resulted in scandals and fines involving major multinational financial corporations, particularly regarding the online exploitation of children. As this trend continues, we anticipate that more institutions will be impacted if they do not properly mitigate against these risks.

Challenges in Risk Monitoring

There are a number of immediate effects of the virus on the ability of financial services providers to conduct their usual anti-money laundering (AML) regimes and safeguarding practices. In many countries, social lockdowns mean that it is physically impossible to carry out routine customer visits and conduct in-person AML checks. Visiting a customer premises usually allows a banking relationship manager to better gauge whether the nature of the customers' business in reality reflects their stated purpose and nature of their bank account. Without being able to see the business in operation first-hand, there is a greater chance for illicit activity to go undetected, and for accounts used for money laundering purposes to thrive without outside scrutiny. Likewise, without being able to witness customers and interact with them in branches, some key behavioural indicators for suspicious activity will also not be detected, as financial service professionals must rely on remote means to identify illicit behaviour.

Impacts on Investigations

There have already been anecdotal reports of impact on the ability to properly escalate suspicious behaviour and therefore investigate and combat criminal activity such as human trafficking and modern slavery. In the finance world, suspicious behaviour is reported from within a bank to law enforcement using a reporting mechanism. The Financial Intelligence Units and related law enforcement bodies that are responsible for processing and responding to Suspicious Activity Reports (SARs) are in many cases operating at a reduced capacity, and backlogs of SARs to process are further building.

The impact of this is clear: without the ability to properly mitigate suspicious activity, criminal behaviour will be allowed to continue for longer than usual, and the criminals themselves will remain unprosecuted. Likewise, without proper escalations and investigations taking place, victims will continue to suffer undetected and more will fall into the trap of modern slavery.

Industries in Crisis

The wider economic ramifications of COVID-19 are yet to be fully understood. However, we are already seeing an increase in people falling below poverty lines in many countries across the world. Many workers who rely on their daily wage suddenly find their income has completely stopped as lockdowns came into force. These workers can be found across industries, from factories and agriculture, to construction and domestic work. Many of these people are migrant workers, who may have travelled across borders in order to find work and rely heavily on their income to support their families at home.

One of the key drivers of modern slavery is debt, as it is used as a means to control victims and essentially coerce them into working for little or no pay for a period of time. Many of these migrant workers will have taken on substantial debts in order to pay the fees required to secure their jobs. When their income stops, they are suddenly significantly more vulnerable to the lure of unregulated financial products, loan sharks, and taking on dangerously high-interest loans in order to keep afloat. When people are financially vulnerable in this way, they are much easier targets for exploitation, abuse, and forced labour.

This is an area of concern for financial services providers, as they may find their bank accounts being used to process these so-called loan payments. They may find themselves inadvertently handling illegal or exploitative funding. Financial institutions may also find their commercial clients' supply chains changing and risk profiles shifting in these uncertain times. For example, where forced-labour risk for a particular client's factory may have been relatively low before, changing circumstances and increased desperation within industries and workforces may alter this risk level, and financial institutions must be prepared for this.

Annex A: Covid-19 Response Checklist

The full extent of the impact of COVID-19 on the finance world remains to be seen, but the identified emerging trends and risks must be understood and mitigated against, to protect the institutions and the victims being exploited by criminals in modern slavery. There are a number of recommendations that can be made at this time to combat modern slavery issues in response to COVID-19:

Awareness & Communication

- Use available international resources to guide present and future due diligence processes related to the COVID-19 response;
- Regularly provide information and updates on the impact of COVID-19 on modern slavery risk to senior decision-makers;
- Engage with peers, relevant governing bodies, law enforcement and Financial Intelligence Units, and experts, to share experiences and identify best-practice;
- Ensure communication with any subcontractors used on the bank's sites (cleaning staff, catering staff etc.) to ensure that worker rights are being maintained and modern slavery policies continue to be adhered to;
- Join multi-stakeholder initiatives that are addressing the COVID-19 crisis (e.g. The Mekong Club, Be Slavery Free);
- Ensure that only verified news and information is shared with employees through official channels; and
- If applicable, consider how commitments made in the company's modern slavery statement will be impacted by COVID-19, and address these impacts in the yearly updated statement accordingly;

Risk Evaluation

- Conduct internal evaluations to identify which customer groups may be the most heavily impacted by COVID-19 and may require alleviating measures;
- Regularly re-evaluate risk in the client base, taking an adaptable attitude in order to stay relevant and responsive to changing circumstances;
- Conduct risk assessments on possible new avenues for money laundering that may be more frequently explored as options for criminals to use, such as online platforms; and
- Consider allocating existing resources or investing in new expert resources on emerging risks (such as online exploitation) in order to prepare the institution for new challenges.

Supporting Customers in Challenging Circumstances

- Consider simplified due diligence processes to customers that are low risk and would benefit from easier procedures to gain access to finance during this time;
- Offer guidance and resources to customers that may be facing financial challenges at this time, to educate them on their financial options;
- Engage in dialogue with customers that may have a heightened forced-labour risk in their supply chains due to COVID-19 pressures, to understand their financial circumstances;
- Encourage awareness within the customer base of the humanitarian risks that financial decisions (such as stock order cancellations) have on the workers in their supply chains;
- Where possible, support clients to honour past and current production contracts with existing suppliers to reduce the impact on workers; and
- Spread awareness and education on the risks of high-interest loans and other unregulated financial products, particularly for clients that may be higher risk for modern slavery (i.e. low-income workers).

Reporting & Investigations

- If site visits are not possible due to lockdown measures, consider other options such as phone interviews, to collect relevant customer due diligence and anti-money laundering information, with the expectation to carry out a site visit when possible;
- Consider using technologies such as Google Streetview to verify addresses in the case that physical visits are not possible;
- Identify any disruptions to the usual reporting processes for suspicious activity and consider any additional actions or contingency measures to put in place to ensure SARs are processed as soon as possible;
- Keep abreast of new trends and typologies, such as online exploitation, that are emerging during this crisis;
- Where possible, share anonymised investigation information, such as case studies and typologies, related to modern slavery that arise during this time, to contribute to the wider industry response; and
- Ensure remediation processes continue to function.

MM



info@themekongclub.org



www.themekongclub.org