An Examination of the Impact of Covid-19 on Financial Institutions Ability to Comply with Anti Money Laundering Legislation and Fraud Prevention Policies.

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Submission of Thesis and Dissertation

National College of Ireland

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Introduction

The objective of this research is to examine how the Covid-19 pandemic impacted financial institutions' ability to comply with anti-money laundering legislation and fraud prevention policies.

The questions which will be examined within this study are as follows:

- What was impacted?
- Why was it impacted?
- How could the impact have been prevented?

Brief Background

This topic was chosen based on personal experience gained throughout a twelve-month placement as a Compliance Officer in a Fund Administration Bank, where it was witnessed first-hand the impact of the pandemic on a firm’s ability to comply, contrasted with the ease of compliance observed prior to the pandemic. The topic was also chosen due to a personal interest to further my career and education surrounding Compliance activities within Funds.

The Covid-19 pandemic had a significant impact on financial institutions such as Fund Administrators. As the pandemic progressed, Work from Home (WFH) measures impacted the traditional daily workflow, {Meetings, “Water-Cooler Talk”, In person Management} the ability to obtain and authenticate required documentation from clients, {Wet Ink Signatures, Up-to-Date passports, Proof of Address} and a significant increase in fraudulent activity {Phishing attempts and illegitimate trade orders}. All of these issues combined made it more difficult to carry out regulatory required duties, in order to remain compliant with the legislation.

These formulated issues pertaining to operations {ability to calculate NAV’s on time, correctly input trade orders, verify card usage as online orders rise}, regulatory compliance {Culture, Whistleblowing, PCF approvals}, and putting in an effective work from home order to comply with public health regulations. Many staff had no previous experience with working from home and/or had no suitable workspaces at home. There was a rush in many companies to get junior staff members approval to work from home, as in many companies work from home privileges are only available to senior staff members.

Along with the lack of support from legislators and Government, money laundering vulnerabilities and the growing risk of fraud appear to have gone unnoticed in comparison to the robust health regulations implemented by the Government. Governments all around the world prioritised public health and hospital capacities over many industries such as hospitality, educational and in this case, banking. Support slowly trickled in as industries began to reopen, but at this stage, most of the damage around market instability, fraud attempts, and money laundering had been met by Compliance and Anti Money Laundering teams.

Methods

This study will examine and critically analyse what experts are saying about the sector during the pandemic, by using industry publications such as the Financial Action Task Force (FATF). This study will also conduct a survey to gather a wider scope of opinion of the impact Covid-19 is having on their ability to continue to comply with regulatory requirements, using various financial institution contacts obtained throughout a twelve-month placement and current employment connections.

Since this dissertation is predominantly a non-empirical study focusing on qualitative data, literature will be pivotal in providing assistance to the research. Since Covid-19 is in the early stages of research, this study will rely on the peer-reviewed journals which are available and rely also on publications from regulatory bodies and accredited educational and professional boards such as the Institute of Banking and Association of Compliance Officers Ireland (ACOI).

Using sources from Central Bank, Association of Compliance Officers of Ireland (ACOI) and Financial Action Task Force (FATF), all of which are either accredited educational bodies or governing bodies surrounding Compliance within Financial Institutions. They will assist in shaping the backbone of this dissertation.

This research will also rely on the knowledge of other Compliance and Anti-Money Laundering Officers, utilising distance interviews and semi-structured surveys to obtain a large wealth of knowledge on their challenges faced during the pandemic. In order to obtain a wide-ranging perspective of the industry, the scope of the interviews and surveys will include members of the Association of Compliance Officers (ACOI) from a variety of financial institutions, including fund administration, retail banks, and corporate banks. The purpose of the interviews and surveys is to gather a broad spectrum of opinion from various different types of financial institutions on how the global pandemic affected their industry in terms of compliance with legislation.

Overall Aims

Overall, the objective of this research is to determine the true impact of Covid-19 on all financial institutions' ability to comply, where the problem lies within the legislation, and whether the responsibility rests with financial institutions' poor handling of pandemic. It is important to find these answers within this study, as it firstly, prove or disprove the hypothesis and secondly, it will offer insight into the industry, which will allow for further planning and study on the topic of legislation within the financial industry. The study will also look at how legislation did not into consideration a widespread Business Continuity Plan (BCP) being enacted and how an impact such as this, could be prevented in future instances.

Business Continuity Plans are a set of policies and procedures using systems that prevent potential threats to the normal operation of businesses. This could include renting an offsite office in the event of a fire/flood or in this case the implementation of a remote work system (Virtual Private Network) where employees are able to access their work desktop from anywhere in the world.

Nobody could have predicted a global pandemic, but due to the bureaucratic requirements of the Criminal Justice Act (CJA) and the Central Bank of Ireland (CBOI), regulation and legislation is inadequately equipped to allow employees within a financial institution, particularly Compliance and Anti-Money Laundering teams to work from home on a long-term basis.

Review of Literature

This review of the available literature will draw on industry publications and books which examine the impact of a global pandemic on Compliance and Anti-Money Laundering departments during a pandemic, the instability caused by Covid-19 and its knock-on effects that impacted firm's ability to comply with legislation and the role of Central Bank of Ireland before and during the pandemic.

The reason for this literature review is to show relevant secondary materials that can give an addition in depth coverage of the impact Covid-19 has had on financial institutions ability to comply with legislation. This publications and books can give the reader further insight into the relationship between the resources available and the further development of the hypothesis stated within this study. These industry publications can also provide insight to what information and mitigation plans educational and professional boards are providing to their members, who are Compliance and Anti-Money Laundering Officers.

Impact on Compliance and Anti-Money Laundering Departments

The impact of working remotely may undermine the operation of existing AML and compliance programmes, including in-person compliance training, investigatory client due diligence, and interviews with prospective clients. (Lai, Karry, 2020). Firms had to take a risk by deferring Compliance trainings. As a result. some elements of the company's Compliance programme {Escalation procedures, Spotting Potential Money Laundering, Whistleblowing etc} will be unfamiliar to new employees, who were never within the office and therefore, would not be aware of the company "politics" and what the status quo within the teams are.

Many Compliance policies are heavily influenced from current legislation. The purpose of Compliance trainings was to keep their employees informed about the Anti Money Laundering requirements as per the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 whereby

> *Section 54 of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended (CJA 2010), requires a firm, such as an externally or internally managed Irish corporate fund or a manager of a trust fund, to ensure that all persons involved in the conduct of the firm's business (including directors, other officers and employees) are instructed on the law relating to anti-money laundering and countering the financing of terrorism (AML/CFT) and are provided with ongoing training on identifying a transaction or other activity that may be related to money laundering or terrorist financing and on how to proceed once such a transaction or activity is identified." (CJA, 2010)*

With these Compliance trainings on hold, institutions are in theory, non-compliant with financial security regulation and breaking Irish law. This is as a direct result of the Covid-19 pandemic. While many have since switched to online trainings, in the beginning many decided to “wait it out”, in the hopes of a return to the office around August 2020.

Client Due Diligence is the collection of the required amount of identifying documentation required by law to ensure Anti Money Laundering Officers know who is setting up accounts and the jurisdiction in which the client is living. The amount of required documentation varies based on a risk-based approach. Low risk investors based in countries deemed “low risk” will be subject to “Standard Due Diligence” whereas investors who have been identified as a person whom is Politically exposed or a “PEP” would be subject to “Enhanced Due Diligence” This process is known within the industry as “Know Your Customer” It is known colloquially within the industry as “KYC”.

According to a dossier released by the Financial Action Task Force (FATF), criminals are finding weaknesses within some institutions Client Due Diligence measures (CDD) by using the work from home orders as a result of the pandemic in order to conceal the source of funds and launder money. (FATF, 2020) Firms need to remain vigilant to criminals using this unusual time in order to conceal and launder funds.

Training all Anti Money Laundering and Compliance Officers in how to perform Customer/Client Due Diligence as effectively in the Work from Home environment as they would in the office should be considered as a means of preventing oversight. This would involve training their staff on how to analyse digital documents and e-signatures, comparing, and contrasting that to existing documents if eligible. If a new client is being on-boarding within the virtual environment, firms may consider an enhanced due diligence process while in the work from home environment. This involves using a risk-based approach and requesting additional documentation from the client. Tracking large transactions may also be considered for clients onboarded in the virtual environment.

The Central Bank of Ireland has enhanced its interaction across financial services industry to ensure that firms are taking strong measures to keep operating and serving their customers despite the significant and unprecedented challenges presented by COVID-19. (CBOI, 2020) Firms are now required to provide the Central Bank with daily/weekly updates (depending on the category of license a firm operates under e.g., Fund, Retail, Commercial, Private) as to how the firm is operating under the new conditions. This level of supervision is considerably higher than firms are used to and may cause difficulty within Compliance departments as they are already experiencing increasing workload without having to provide Central Bank of Ireland with daily updates.

Depending on the risk appetite of the Chief Compliance Officer, a daily update may be forgotten about, increasing the risk of the institution being questioned by regulators. These questions could be in relation to how funds are performing in terms of liquidity as a result of market instability.

Market Instability:

Concerns of a devastating credit crisis and a potentially significant recession due to the spread of the virus crashed financial markets around the world (Lucchese M, 2020*)* The novel nature of Covid-19 cause uncertainty across all industries, causing a credit crisis as businesses quickly apply for loans to cover the costs of government sanctioned lockdowns. The pandemic brought financial markets all over the world to a crash. The S&P500 index on the Wall Street Stock Exchange dropped 32% between February 19 and March 20, 2020. The FTSE100 index also dropped the same range in London. The Milan FTSE MIB index fell 38% in Italy, which is no surprise as they were the first European country to be infiltrated by the virus (ibec)

In relation to Transaction Monitoring, which is the act of investigating and approving/declining transactions in and out of funds, Deloitte has said financial institutions should be aware that alert volumes will rise dramatically as industries re-open, which, especially combined with the current sharp decline in activity, may conclude in previous historical profiling rules unreliable. (Deloitte, 2020) Historical profile of a client is their previous buying and selling habits, when a client deviates from their usual buying and selling habits, an alert is triggered on the system.

Checking to ensure funds are from a clean source is a timely task. Having a significant increase in transactions to investigate multiples the level of risk of an oversight, as although you must check each hit with accuracy, you also must close the hit within a reasonable timeframe, as per company policy. Despite the increased number of alerts, firms are not permitted to deviate from the required clearance timeframe. Compliance officers are up against the clock - Excessive time delays in reviewing and assessing unusual activity, resulting in delays in reporting suspicious transactions to the appropriate authorities. (CBOI, 2020)

The Role of Central Bank of Ireland and Compliance Culture

Avoiding bank failures systematically is not guaranteed; the current structure of how banking services are delivered typically requires each institution to have a structure of assets and liabilities that can leave it fragile and vulnerable to economic and market shocks. (Honohan, P., 2019) The above quote talks about how expensive it is to safeguard any bank and how the status quo of banking models leaves it fragile and vulnerable to shocks. This is because traditionally banks operate as a bricks and mortar template and legislation never intended for employees to be in the "Business Continuity Plan" long term. Firms have had to try to adjust to the new operation model, while attempting to provide the same level of service to its clients while operating in line with regulation. This could be a difficult task to complete due to the uncertainty of the environment and the discrepancies within the regulation to operate a "remote bank".

This is further argued by Rowland in 2014 where at a Compliance Seminar stated, despite a new and more robust regulatory infrastructure, the Central Bank of Ireland has recognised that no amount of regulation/legislation, supervision, or enforcement can prevent breaches or "change behaviours on their own." (Roache et al, 2018)

No amount of increased regulation, supervision and enforcement can prevent breaches in the regulation. It is up to the individual firms to adopt policies and procedures which adopt a culture of compliance. Having a strong culture of Compliance within a financial institution is important to spot irregularities and criminal activity. Some financial institutions may need to adjust their mindset in order to enhance their compliance frameworks. This includes setting the right tone at the top, defining clear accountability for compliance (within the three lines of defence), developing incentives to promote a strong compliance culture, and giving the compliance topic the attention which it deserves and requires. (ECB, 2020) By having a strong culture of compliance, particularly during Covid-19, it ensures that every employee within the three lines of defence is constantly on the lookout for regulatory irregularities, and as a result of their positive relationship with the Compliance team, escalate the irregularity as soon as it surfaces.

White-Collar Crime vs Public Health Guidelines

The Federal Bureau of Investigations (FBI) defines White Collar Crime as criminal activity characterised by intentional deceit, concealment, and violation of trust in order to obtain or to avoid the loss of money, property, or services or to secure personal or commercial gain. There is a common misconception that white-collar crime is victimless. The true cost of white-collar crime is hard to quantify.

While it is important to protect the vulnerable in society and our healthcare system by working from home, it has become increasingly difficult to prevent white-collar crime while working in the remote environment. Questions need to be raised about the status of AML and Compliance Officers within the workforce and if they should be deemed “essential workers” and to be placed within the office during the pandemic.

An Garda Siochana are busier than ever since the start of the pandemic, ensuring public health measures and security are abided by. However, as the lockdowns begin to lift, it can be expected that specialised division of An Garda Siochana such as Criminal Asset Bureau and the Garda National Economic Crime Bureau will become more active in dealing with the rise of fraud and white-collar crime as a result of the pandemic (A&L Goodbody, 2020) In the short term, while the government prioritises safety and promotes working remotely, certain aspects of white collar and regulatory investigations around the world have slowed. (Debevoise & Plimpton, 2020)

In addition, due to the remote working environment, Compliance teams and operation teams are no longer having schedules or unannounced audits from internal, external, and regulatory audits. This is a direct result of public health guidelines taking precedence over the status quo prevention of white-collar crime within financial institutions.

Conclusion of Literature Review

The significance of the findings within the literature review supports the hypothesis that the global pandemic has had a negative impact on financial institutions ability to comply and meet their regulatory requirements.

Industry publications agree that there has been a disruption to Compliance and Anti Money Laundering programmes as a result of work from home orders due to the global pandemic. Industry experts also agree that there has been significant market instability as a result of the pandemic. This market instability has caused increased workload for Compliance officers which makes it difficult to comply with legislation regarding source of funds and fraudulent activity. The role of the Central Bank is also discussed by publications. There have been significant failures from regulators in order to plan for a long-term Business Continuity Plan (BCP) and market instability along with increase in fraud as a result.

Having industry experts on side allows interviewees to be well informed. It will be a given that anyone interviewed for this study with be a member of the Association of Compliance Officers – the accredited and governing body of Compliance and Anti Money Laundering officers within Ireland. The reason for this requirement is due to members of Association of Compliance Officers Ireland being highly qualified, informed on industry trends and are highly experienced

As the issue is relatively new, this study will be one of few which will delve into the impact of the pandemic, the reasons behind the impact and the solutions to prevent this from happening again. Having a study similar to this, will help Compliance and Anti Money Laundering officers in the future to better predict the impact a global pandemic or long-term Business Continuity Plan will have on regulation.

Potential progression of this study would examine the readiness of Central Banks across the world for another global pandemic. There is clearly a discrepancy within the legislation that would allow for a worldwide long-term Business Continuity Plan. Further study could examine the reasons why Central Bank failed to recognise drawing legislation that allows, with ease, working remotely in the 21st century irrespective of a global pandemic.

Research Question and Objectives

Research Question

Has the Global Pandemic had a negative impact on financial institutions ability to comply with and meet financial security and anti-money laundering legislation and policy?

The research question within this study will examine the impact of a global pandemic on financial institutions ability to comply with and meet financial security legislation and internal standard practice policies. This study will draw on industry publication and personal experiences to support the hypothesis that the Covid-19 global pandemic negatively impacted financial institutions ability to comply and meet their regulatory requirements.

It is important to investigate this research question, as the global pandemic develops fraud and unemployment is on a significant rise. People have trusted that financial institution will safeguard their finances and assets. However, throughout this research, it was discovered that financial institutions found it difficult to adapt to the change in societies work structure and the increase in online transactions, fraud, and money-laundering as a result of the global pandemic.

Problems Arising

The problems that have given rise to the question are complex and could vary from institutions and risk appetite. An example of these problems is Compliance Officers ability to complete monitoring transaction obligations in the given timeframe, control of fraudulent activity as fraud rises and the discrepancies in the legislation.

Other problems arising in the industry as a result of the Covid-19 pandemic are:

- Increased supervision by Central Bank – Higher workload for Chief Compliance Officer
- Staff shortages as a result of Covid-19 – Deliverables are not being met by operation teams
- Increased fund liquidity – Increase reporting to Central Bank
- Increase in Fraudulent Activity which requires Compliance team to draft Suspicious Activity Reports/ Suspicious Transaction Reports from Central Bank and An Garda Siochana – Subsequently creating a higher work load for Compliance Officers
- Demand for credit has risen as a result of Government orders to temporarily shut specific industries

However, industry experts believe that Covid-19 has caused disruption to the Compliance programmes across the industry causing difficulties in completing customer due diligence (CDD), discrepancies in the legislation - Criminal Justice Act (Money Laundering and Terrorist Financing) (Amendment) Act 2018, outdated regulatory requirements from Central Bank and an increase in fraud as a direct result of the Covid-19 pandemic.

Methodology

The hypothesis within this study is "*the impact of a global pandemic on a firm's ability to comply with financial security regulation"* The overall assumption within the industry is that the pandemic has had a negative impact of firm's ability to comply. This is evidenced by Central Bank of Ireland and other governing bodies within the industry increasing regulation and supervision during the pandemic to ensure firms remain compliant.

Nature of the Work

The research within this study will be in the interpretative paradigm, meaning this study will be subjective. While some financial firms may have felt the impact of the global pandemic, others may have not felt the impact. It will not specifically be yes or no.

Theoretical Influences

This study will consist of qualitative data based off first-hand experienced which will be explored in an ethnography, interviews with people within the industry and publications from industry leaders, which will help further the knowledge and understanding of the impact on financial institutions.

This study will take a majority non-empirical approach which will involve a lot of reading throughout the study to keep up to date with publications as the situation progresses. There was also a mixed methods approach used within this study. This was used to utilise a number of different methodological approaches that was available, as a result of direct industry experience, a deep understanding of the way in which this industry operates in and outside a Global Pandemic and the various amount of industry connections with professional qualifications in the field of this research. All of this combined helped to create a deep level of understanding that answered the overarching question at hand.

Using the ethnography, this study will be able to critically analyse findings within industry. To further the arguments made within this study, data collection methods such as distance interviews and semi structures surveys will be useful, which will be further discussed in the next section of this dissertation.

Data Collection Methods

Due to the nature of the work in Compliance, the study needs to ensure confidentiality is upheld and that participants are confident that it will only share the agreed information without disclosing identifying information about methods and systems used within the department, employer of participant and name of participant.

The most effective method of conducting the data collection for this study would be a distance interview [as a result of the pandemic] with my previous employer as a Non-Disclosure Agreement (NDA) regarding methods and systems used within the company has already been signed. This will ensure that the participants from this company will be confident that their confidentiality will be upheld.

The distance interview is best to be semi-structured. This will allow for some open-ended questions to get a further analysis on the impact the global pandemic has had on the firm's ability to comply with legislation.

Using connections gained from my experience within the field, the survey will be sent to other Compliance Officers from different firms and will be fully confidential self-administered. Within the survey, it will state that participants are not to name the company in which they work/worked for in order to further ensure confidentiality. Using survey software, this study can further ensure that identifying data is not collected and only data connected to their own experience complying with legislation while working in financial institutions during a pandemic is collected.

Another method of data collection method this study will use is monthly journals that were written during a 12-month period as a Compliance Officer operating in a pre-Covid environment and during Covid-19. These monthly journals were from my own interpretations and experiences of working as a Compliance Officer both pre and during the pandemic. It is important to note that any sensitive or disclosing information will be redacted, as per company policy. This will serve as a comparison purpose of the impact that Covid-19 has had on the ability to comply with legislation. This will be known as the ethnography.

Sampling Data

For this study, “probability sampling” was chosen, which involved me drawing up a survey and posting it LinkedIn with a call to action for Compliance and Anti-Money Laundering employees across the entire Irish financial institution industry. Probability sampling allows a random selection which makes from stronger statistical inferences, while also cutting out biasness by sending it to close colleagues, who may give answers they believe the research is seeking.

The population used will be people working within the financial services industry, where as the sample set will be preferably people working with the regulatory side – Compliance and Anti-Money Laundering teams. The sample size preferred for the survey would be approximately 20 respondents. This is to allow for a response from a wide range of staff working at different types of financial institutions, in order to capture an overall image of the industry.

Limitations

There are a few limitations in regard to this study, particularly if we were to examine it on a global scale. Countries such as South Korea, who’s initial Covid-19 response was so quick, and where mask wearing is the social norm, lockdowns were not a requirement. The Work from Home measure played a large contributing factor within the impact. As a whole, this study is limited to examine the impact within Ireland, during lockdowns, where work from home measures were mandatory, in order to accurately examine the impact. This study will refrain from surveying/interviewing staff, who for whatever reason, were based within the office, as this would not be the industry norm and would have the potential to skew the results.

Ethics

Overall, there is not many ethical considerations within this study, as it does not examine human behaviour, emotions, or human decisions. It more so examines the impact of a collective of decisions made by other humans, who are not involved within this study. Although, ethical considerations, such as the potential to tip-off about internal processes, divulging information that may be price sensitive.

In order to combat these ethical considerations, I designed the surveys and interviews in a way that would not lead to sensitive information about internal process or price sensitive information to not arise during the situation. This means as a researcher, I will not be met with the responsibility of having access to price sensitive information or internal processes, along with the responsibility of having to report such a leak to the relevant authorities within the college and legislation.

Analysis and Findings

Within the section, the findings from an ethnography, survey and interviews will be discussed. The purpose of the ethnography is to compare my own experience as a Compliance Officer prior to the pandemic, to that of a Compliance Officer in the midst of the pandemic, and now working as a Client Due Diligence officer as lockdowns begins to lift amidst the vaccine rollout.

There is a degree of bias that needs to be acknowledged due to my own personal experiences before this study discusses the ethnography. As a means of counteracting the bias that I inevitably carry, I have opened the survey and interview section to other people, outside of the company the ethnography is based, in which I experienced a negative impact of Covid-19 on compliance with legislation.

The survey will serve as a means to gather the opinion of other people working within the industry and their perception of the impact of Covid-19 on financial institutions ability to comply with legislation.

Finally, the interview will serve as a means to gather information from Compliance Officer(s) who have many years' experience working within the industry and use their knowledge and professional qualifications to gain an insight into the impact they and their teams had felt as a result of Covid-19 and how they attempted to navigate their way through a regulatory turmoil.

Ethnography

As part of my Bachelor of Arts (Honours) Business Degree, I had the opportunity to participate in a twelve-month work placement programme. I chose a Fund Administration Bank which had an opening for a Compliance Officer. I began to work in the office situated with the International Financial Services Centre in Dublin in June 2019.

Being situated within the office was an excellent way to learn Compliance activities from a number of highly experienced team members. Working together in the office allowed for collaboration on many Anti Money Laundering and Compliance projects which helped combat fraud and adopted a positive culture of Compliance within the organisation.

Prior to Covid-19, day-to-day activities included;

- Sanction Screening of current investors

    All financial institutions are expected to work alongside Central Bank and Money Laundering Reporting Officers from the Funds they administer to ensure they take the appropriate measures to mitigate the risk of money laundering and terror financing. One such method is Sanction Screening. This is a system which uses the names of any of the financial institutions investors/clients and screens it against economic/criminal sanction lists such as that from Office of Foreign Assets Control. This ensures that as a financial institution, they do not have any investor/client who has

    1. A history of financial crime and
    2. An investor or client who has a criminal/economic sanction. If this were to go undetected, financial institutions could face sanctions themselves.

- Politically Exposed Persons (PEP) Screenings of current investors
- Transaction Monitoring of Transfer Agency transactions

- Anti-Money Laundering (AML) Know Your Customer (KYC) physical file checks periodically
- Quarterly Controls on Anti Money Laundering/Compliance Activities
- Log and Monitor periodical correspondence with Central Bank of Ireland.

Overall, workload was relatively manageable. Transaction Monitoring alerting approximately ten times a week, depending on the type of fund {Weekly Funds, Monthly Fund, Bed and Breakfast Trade} Sanction Screening and Political Exposed Persons was performed every day, however, rarely showed a hit, and if a hit were alerted, it could be closed instantaneously based off an overarching algorithm.

Compliance culture was at an all-time high due to the ease of access of the time; as staff could “pop over” to the team and clarify any regulatory or legal concerns they may have about a particular trade or client file. Having the Compliance team being easily accessible fostered a great culture of escalations, training participation and overall good morale around Compliance enquiries.

When switched to the remote environment, we were initially expecting to have high email traffic of escalations, particularly as operation teams were taking trade orders remotely rather than the preferred method of facsimile. As a team, we seen a large drop in the number of escalations. This was not due to lack of need, but a lack of perceived access. People did not want to “hassle” a busy team with an email, as emails are more bureaucratic than a quick chat. These lack of escalation caused a distance between operation teams and the Compliance team which impacted workflow on both sides as channels of communication were slowed.

Prior to the Pandemic, there was an ease of Compliance with regulators and legislation. Collection of Know Your Customer (KYC) documents was straightforward, for both the financial institution and the client. Wet ink signatures, verifying and certified documentation and identification could easily be obtained by the client, and therefore easily collected by the financial institution. Having true, certified documentation allowed us to verify unanimously and unambiguously who we were onboarding and there was an audit trail in which we could be confident of. This assisted in other operations such as booking trades, transaction monitoring and auditing, which all allowed us to perform regulatory and legislatively checks in which we are required to complete.

In January 2020, there was worry within the Irish office when there was a confirmed case in France, where our head office is situated. On March 12th, France, Ireland and along with many European leaders announced national lockdowns for two weeks to combat the spread of Covid-19. This meant our entity, along with all of the other EMEA entities within our company were forced to work from home. This was new and uncharted territory for many of us, particularly the Anti-Money Laundering and Compliance teams, who rarely have been given remote working privileges due to the confidential nature of the work.

International stock markets and fund of funds crashed as an economic crisis loomed. This meant that my usual workload regarding transaction monitoring skyrocketed. Prior to the pandemic, most of my day was focused on admin work, updating procedures etc. Now, most of my day was researching clients, examining audit trails, and chasing operations teams to seeking an economic reason for so many redemptions from funds. Having sole responsibility for this process and the sheer volume of trades needing approval made it increasingly difficult to give my full attention to each trade, knowing there was a hundred more like it needing urgent attention, teamed with the policy, heavily influenced by Irish Law, to close each trade investigation within 30 calendar days.

As a result of the economic recession, many people turned to financial crime to generate income. Due to the rise of financial crime, potential hits on sanction screening software increased. This increase in potential hits, in turn, increased my workload. This increase in sanction hits was as a result in the oil prices becoming volatile. Oil trading is a partially sanctioned commodity. This was a direct result of the pandemic as the demand for oil fell substantially as airlines were grounded and people worked for home. A lot of these new hits were much harder to differentiate from “not a true hit” to “true hit” due to the sheer volume of hits coming in, along with the known market volatility where a potential true hit is of higher possibility than before.

As per reviewing Know Your Customer (KYC) in some instances as a lot of bigger or older files had not yet been computerised. This made it very difficult when clearing hits that would arise from these clients. As per regulation, there needs to be audit trail for every transaction that is cleared by Compliance. As some of the KYC files were not available from the remote environment, this made clearing the hits increasingly difficult and timely. Compliance teams had to deal with a lot of back and forth from various teams internal in order to obtain the correct audit trail in order to clear the hit with the aid of supporting documents.

Overall, personally, the impact of Covid-19 was huge on how I could support the team in complying the Central Bank regulation and governmental legislation. This struggle influenced this dissertation topic, as I was keen to research the industry as a whole, to examine if the impact was felt by other Compliance Officers. The remote environment made it difficult to collect supporting documents and create an audit trail, while the market instability created a larger workload for myself, which in turn, made it difficult to follow regulatory time constraints and the level of audit trail required to clear a hit indefinitely.

Survey Results

A survey was chosen to examine the impact of Covid-19 on the wider financial industries ability to comply with legislation, beyond research obtained through the literature review and ethnographic study. This allowed for any bias research or experiences to be challenged. The survey was open to members of the Association of Compliance Officers of Ireland, meaning the participants would be highly experienced and trained Compliance professionals. The reason for this was to ensure accuracy in the experience and perception of the possible impact.

One of the first questions asked was "*What type of financial institution are you currently employed at?"* The reason for this question was to examine an industry breakdown of the type of institutions who felt the most impact of Covid-19 and compare it to the type of institution who felt the least impact.

38.9% of participants were in both Fund Administration and Depository – meaning, in theory, this is the industry that has felt the most impact. Through my survey, Private Banking had 16.7% of the overall participants.

Secondly, the study asked its survey participants *"Has your Compliance Team seen an increase in internal escalations from Operations teams since March 2020?"* 88.9% of participants in the survey answered "Yes" This result is indictive within the ethnography and literature review (add it in) Compliance teams across the industry have been dealing with internal escalations from their operations teams as potential fraud attempts, suspicious activity and suspicious transactions rise during the pandemic.

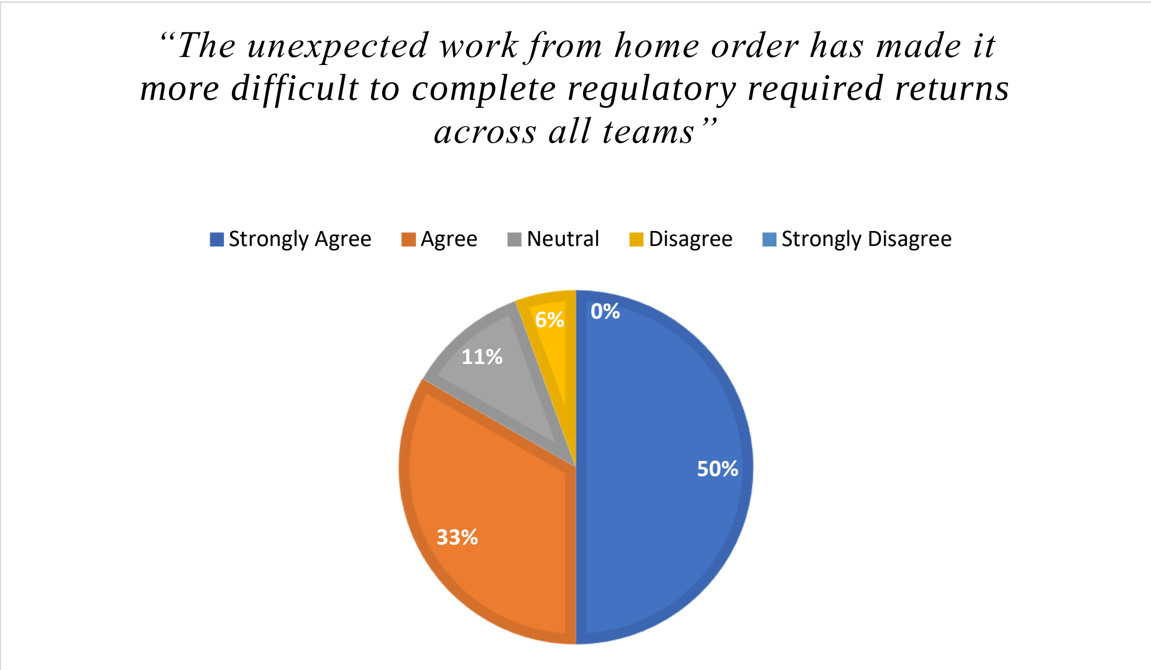
When asked *"Has there been an increase in awareness of fraud (internal and external) since the pandemic has pushed all staff to work from home?"* 77.8% of respondents answered "*Yes, Compliance team has implemented measures to increase awareness of Fraud"* where only

22.2% answered *"No change from previous levels of engagement around Fraud Awareness"*

0% of respondents answered "*No, Compliance team has not implemented any measures to increase Fraud Awareness"*

Upon further research, this question has its flaws. It does not take into account previous risk appetites for Fraud Awareness – One institution could have a high-risk appetite that further measures during Covid-19 may not have been necessary, or the Compliance team in big institution may not deal with fraud and that institution could have a separate fraud department.

The next question asked to the survey respondents was a formatted as a Likert scale question



From the results, there is a clear indication the majority of respondents found the Work from Home Order, as a result of the Covid-19 pandemic, made it more difficult to complete regulatory returns across all teams. Compliance officers are responsible for ensuring that all operational teams have submitted their regulatory returns, depending on the type of Banking license they are regulated under, on time, to the Central Bank of Ireland.

In some of the research for this study and through an ethnography, it was witnessed that Compliance officers had an increase in workload as a result of the pandemic. An increase in workload for Compliance Officers can be problematic, as the risk of oversight increases as workload increased. 38.9% of respondents answered, *"Large Increase in Workload",* 55.6% answered *"Small Increase in Workload",* with only 5.6% experiencing "*Neutral/Stayed the Same/Noticed no change"* Unsurprisingly, 0% of respondents noticed any decrease in workload, large or small.

"There has been an increase in contact with Central Bank of Ireland, as a result of the Pandemic" 61.1% of respondents answered, "*Strongly Agree",* 33.3% answering "*Agree"* and only 5.6% answering *"Disagree"* 0% of people answered "neutral" or *"strongly disagree"*

The final question asked to the respondents of the survey was *"If applicable, the increased in workload paired with increased contact with Central Bank of Ireland, made it more difficult to meet regulatory deadlines?"* 66.7% of respondents answered, "*Strongly Agree",* 16.7% answered *"Agree"* and 16.7% also answered *"Neutral".* 0% of participants answered *"Disagree"* or *"Strongly Disagree"*

The survey was successful in proving the hypothesis proposed in this study. From the results obtained, it is clear that there was some level of professional negative impact felt by Compliance Officers as a result of the Covid-19 pandemic. Through heavy workloads and increased supervision, regulatory returns were made more difficult to submit on time. This has caused difficulty in complying with legislation set out by the Government and regulators.

Interview Analysis

For this section of the study, a Compliance Officer with a combined ten-year experience within the field of Risk/Compliance of Fund Administration was interviewed. This interview participant was chosen due to the level of experience, both professionally and educationally they have within the industry. The interview was conducted virtually, so to comply with Covid-19 guidelines at the time. Identifying information of the participant and participants employer has been redacted, in order to remain deidentified.

1. *Could you tell me a little about how you came to be in the role that you currently have?*

I have a few years' experience prior to my current role here in XYZ [Retracted]. I started off initially in the Risk about 10 years go and then changed into Compliance in ABC about 5 years ago. I wanted to eventually go into a more senior role. That is when I applied to my current position. It offered many educational prospects. This is when I became a member of a professional board, after taking my exams. I liked the idea of a more senior role, dealing with people and the advanced professional development a more senior role would afford me. Although no amount of managerial training prepared me for managing a team remotely.

2. *How long have you been employed within the Compliance Department at your current institution?*

I am here in Compliance about 3 years. I love it. I am happy with my role and level of responsibility I had in a normal operating model.

3. *Could you describe the change you and your team has seen since the start of the Covid-19 pandemic?*

Most importantly, we are not together. In the beginning team morale was actually quite low. None of us knew what was going to happen or if the team was going to be cut down. In the beginning, so many of my company's funds liquidated. This meant there was a lot of Compliance to do to ensure it closed off correctly and reported. It was quite hard doing so in the remote world. My team sat together and had constant chats. Due to the nature of compliance, we could not IM because of confidentiality. The lines of communication closed. We had to try keep track of what everyone was doing, to make sure deadlines were met.

We look after regulatory returns for other teams. So, we keep track of the CBOI returns that other teams are sending off. There was a lot of email traffic in the remote environment, meaning some of the email reminders I was sending off to operational teams were missed. We had a lot of late returns. It was frustrating because we are the first point of contact to CBOI and they were on our backs (as they should). We never or rarely had late returns pre-COVID-19. It was disappointing to see but understandable given the pressure operational teams were under and the email traffic they were having from not being in the office.

4. *Do you think that Covid-19 has made it more difficult to comply with current legislation? How so?*

Oh, one hundred percent. We had to make so many temporary exceptions to policy and procedures. Our policy and procedures are location based, meaning each entity location has their own policy and procedure based on local legislation.

A big one was wet ink and certified documents. For high-risk investors and clients, we instil enhanced due diligence. This means enhanced due diligence. We request ID's that are certified by a notary, police officer, accountant etc. to ensure there is "true likeness" to the investor/client and for entities it is the same process but with their memo and arts. People could not get to notaries etc. we understood that. If we did not, we would not be able to onboard any high-risk investors/ clients. High risk clients make up a large pool of our base.

Working remotely also comes with risk of data breaches. We had to decrease our risk appetite here. My company tries to encourage teams working with sensitive data (which is most) to work within the office as it is the safest. This was thrown out the window as the government ordered us to WFH. We had to implemented better firewalls, VPNs and trainings as people connected to household WIFI rather than a commercial network.

5. *Has the increase in supervision such as daily updates on liquidity by Central Bank made it more difficult to comply with their demands?*

Kind of. I mean, if we missed an update here and there, we would not be fined or sanctioned but it would definitely be remembered in audits. We want to have a positive and open relationship with CBOI, but the daily updates were quite time consuming – most days we had nothing to report and, on the days, we had something to report, the level of liquidity would be reported to CBOI regardless. I suppose it was CBOI's way of keeping track of the economy and industry during COVID-19 and to keep in touch with Fund Service Providers.

The interview with the highly experienced Compliance Officer reiterates the findings within this study. The unprecedented situation of COVID-19 caused many issues regarding data protection, as staff works from home, fraud prevention and implementing anti-money laundering legislation, policies, and procedures. There is an understanding that the legislation is there to protect, however, it can be argued that is outdated. An example of this within the interview is the exemptions to enhanced due diligence. The rules are there to protect institutions from fraudulent activity from high-risk investors and clients, however, institutions could not stop onboarding high risk investors/clients, during a time when the economy was instable. Exemptions had to be made to the previous way of collecting KYC documents for high-risk investors and clients.

Conclusion of Analysis and Findings

From the interview, survey results and ethnographic work, there is a clear pattern arising. The pattern being that the Covid-19 pandemic has negatively impacted financial institutions ability to comply with legislation and internal policy. The most common theme or difficulty identified within the three was the collection of KYC documentation, which I chose as one of the themes within the study as I was aware myself through the two roles I have been employed in over the years, that Covid-19 has caused great difficulty in collection and verifying documents. This is particularly exasperated when different countries go into different levels of lockdowns at different times. While some offices in the UK may have skeleton staff in that are able to verify that True Copies have been received, other jurisdictions may not have the same Covid-19 risk level/ low enough case number to allow travel to the offices.

The three methods of data collection all come up with the same final conclusion – that the legislation lacked the forward planning of a long-term work from home order. Having all three data collection methods having the same conclusion, along with them backing up information found in the literature review further strengthens the hypothesis at hand and proves it to be true.

Discussion and Conclusions

This section will discuss the potential causation of the impact Covid-19 has had on financial institutions ability to comply with legislation and internal policies. It will also look at potential further studies and how the findings within this study could influence research and development in other areas.

Causation

Covid-19 is a complex and developing situation. It was hard to pin down the exact cause of the impact it had on financial institutions ability to comply with policy and legislation. A number of different factors combined may have hardened the impact Covid-19 had.

High level of unemployment – Increase in Fraud

As unemployment rose, people were looking for ways to create an income. Criminals preyed on the vulnerabilities of these and created fraudulent “get rich quick schemes”. There was also an increase in data fraud. This entailed criminals posing as legitimate banks and through social engineering, obtaining your personal details. During Covid-19, Bank of Ireland ran an advertisement campaign to raise awareness – “Together, we won’t let fraudsters win”. This informed customers of Bank of Ireland, that they would never be contacted by them for personal details – This was in the wake of a large number of customers receiving texts designed to look like the bank asking for personal details.

Lockdowns – Work from Home Orders

As financial services staff go from working within a secured office environment to many working in their bedrooms, this led to a perceived leniency of staff. Fraudsters and criminals used this opportunity to launder money and/or attempt to make fraudulent requests/transactions. Criminals/fraudsters used methods of social engineering, evoking a sense of urgency, or posing as senior staff ordering a specific transaction, in order to trick staff into making a decision they would not normally make. Within the office environment, a staff member can quickly ask, in person, for verification of the request. In the remote environment, with some staff now based in their native country as a result of the desire to be with family during lockdown, verification can not be done as quickly, as working from home offers a desirable sense of flexibility in working hours when a team is not client facing.

In addition to this, as the majority of staff worked from home, Anti-Money Laundering Client Integration and Compliance teams could no longer personally examine/accept wet ink and certified documentation from investors and clients that required enhanced due diligence. Wet Ink and certified documentation are a vital method of protection for financial institutions when dealing with clients from high-risk jurisdictions or investors/clients who are politically exposed or connected to a politically exposed person.

This put banks in risky positions, where dependent of the lockdown status at the time, they had to accept scanned versions of documents from clients. This can be risky as documents scanned by the investor/client can be easily doctored, whereas when the institution received the true wet ink certified document, they have a higher level of comfort as they know it to be a true copy as it was certified as such.

Market Instability

As a result of the Covid-19 pandemic, markets seen a large degree of instability. This increased the workload and stress levels for those working within financial institutions that provided services to funds, securities, and stocks. Increased workloads, combined with legislation requirements and company policies on transaction monitoring, led to staff closing transaction quicker than usual. When staff are closing transactions quicker than usual, the “bigger picture” of the overall transaction may be missed. Staff may not look into market trends that may justify this transaction or they may not look into the historical profile of the investor/client in order to see if this transaction represents their previous habits.

Potential Further Studies

There are many ways in which this study could be furthered. There is potential to look further into the perception of government and legislators of the importance of preventing money laundering and fraudulent activity, in comparison to the perception of the importance of public health. When drawing up public health legislation, office workers, including those who work with regulation of funds, securities, and debts, which heavily influence the economy, where deemed non-essential. This meant they had to work from home, where workflow was disrupted.

Another route researchers could take when furthering this study is to examine the economic impact more so than the regulatory impact. It is no surprise that the economy has been hard hit by constant months in lockdowns, with retail, personal care and hospitality industries operating at half capacity or closed for fourteen months at a time. The lockdowns allowed for people to save more money, so there is now a phenomenon of deflation in spending, but inflation in saving – in comparison to the 2011 economic crisis, where there was little savings, along with little spending.

Further studies have the potential to look at the long-term impact of the economy as a result from Covid-19. Consumers have seen they can work from home, forgo their daily branded chain coffee during the commute to work, and potentially consume less “non-essential” goods such as fast fashion, in hopes to save for larger items such as property and cars. People can see they have the potential to save and life pre-Covid-19 was one of excess consumerism to conform to a capitalist society where living pay cheque to pay cheque in order to work was considered the norm.

Conclusion

This dissertation has shown the true impact of the Covid-19 pandemic of financial institutions ability to comply with anti-money laundering legislation and fraud prevention policies. The impact was found to be caused by a lack of planning on the behalf of legislators and government officials. Along with the vulnerabilities of staff working from home which exposed firms to a higher level of fraudulent activity.

Economic crisis' around the world due to industries shutting down, high unemployment levels, paired with criminals preying on the vulnerabilities of people through fake vaccination appointments, cures for Covid-19 and get rich quick schemes, fraud and money laundering were prevalent more than ever – at levels in which some staff may have never seen before.

New joiners onboarding within a remote environment also poses a risk – are they who they say they are? Who do they live with? Are the properly trained? Is training online sufficient? With every question answered – a new question arises. The pandemics volatile and novel nature makes it difficult to plan ahead. Nobody knows what the situation will be in four weeks' time. It takes one variant to whip out months of work – As seen in the United Kingdom, where they were due to come out of complete lockdown, cancel all social distancing measure, only to be pushed back by the unexpected Delta Variant. Closer to home, the vaccine program has been slow, for a number a reasons – the HSE hack, supply being low and then restriction on who can get what vaccine. The number of variables at play makes it difficult for financial institutions to plan, therefore, most are taking this pandemic day by day.

In order to prevent an impact seen in the beginning of the pandemic, intuitions and governmental bodies need to learn from the slow response and discrepancy in legislation and build a support network driven by less bureaucratic processes and legislation that supports a remote bank, all while still having the same layers of comfort that protects society as a whole.

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