

COVID-19 implications: bribery and corruption risks

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financial services**

Introduction

Bribery and corruption (B&C), just like fraud, can spike during extraordinary global events such as natural disasters, wars and pandemics, resulting in disruption to normal business and individual activities. Organizational objectives of transparency, business integrity and whistleblowing could get deprioritized as they may be perceived as nonessential, with general employee and client welfare, business continuity and disaster recovery taking precedence. The COVID-19 crisis has led to a great deal of uncertainty, especially in jurisdictions that are not well-equipped to deal with large-scale business disruptions.

The anti-corruption watchdog, Transparency International, has identified¹ possible weaknesses in fundamental safeguards against corruption in the health care and public sector. It points out that most countries have declared states of emergency or have invoked extraordinary powers to help prevent the spread of COVID-19 by speeding up decision-making and the emergency allocation of resources. However, these weaknesses are common to all sectors, particularly financial services, given its role in facilitating various stimulus packages issued by governments to help economies cope with the COVID-19 pandemic.

So far, the crisis has put organizational infrastructures under stress in many ways and, consequently, could encourage poor behavior among employees, clients and other third parties, as organizations grapple with potentially underequipped business continuity, disaster recovery, anti-bribery and corruption (ABC) and anti-fraud controls.

This paper presents potential short- and long-term bribery and corruption risks that firms need to be aware of, along with some considerations on how to limit those risks.

Read other EY COVID-19 implication papers:

- ▶ External fraud
- ▶ Internal fraud
- ▶ Market abuse
- ▶ Navigating the impacts of the pandemic on financial crime compliance
- ▶ The internal investigation process
- ▶ The whistle-blowing function

Bribery and corruption risks during a pandemic: what to look out for

Immediate considerations

Incentives offered to frontline staff: There is a risk that employees may be pressured by customers to waive or lower compliance requirements when providing credit to new or existing customers who have suffered as a result of the pandemic. There may be favors, kickbacks or outright bribes offered to employees. Some incentives may not be monetary; there may be other items of value that could be offered or accepted during times of crisis.

- ▶ **Increased risk of corrupt behavior, collusion and kickbacks due to pressure to sustain and grow books of business:** Due to the impact that COVID-19 has had on businesses, relationship managers may find themselves in an influential decision-making role, approving credit decisions or overlooking know your customer (or client) requirements. In back-office or procurement functions, this could be employees negotiating new contracts with existing suppliers that are trying to survive the crisis. Similar to customers or other third parties offering incentives to employees, employees themselves could be the corrupting influence and look to benefit themselves unfairly. This could be as minor as asking for a small favor or kickback through to trading sensitive information.
- ▶ **Exemptions to standard controls:** COVID-19 could justify the exemptions to, or relaxations of, standard controls. Exemptions for traders to be working from home, acceptance of email invoice and payment authorizations in lieu of system-based approvals, fast-tracked due diligence, etc., all provide opportunities to avoid the regular level of scrutiny placed on transactions. This may also apply to fast-tracking contract approvals or recruitment of individuals.

- ▶ **Third-party intermediaries:** Payments to third-party intermediaries such as introducers, brokers, agents and facilitators have always been associated with a high bribery and corruption risk. This does not dissipate in a crisis; rather, where exemptions on controls are in place, scrutiny around the highest-risk population should continue to the same business-as-usual (BAU) standard, where possible.
- ▶ **COVID-19 charitable donations and contributions:** Considerable funds are likely to be donated from the financial services sector to various charities and governments to support those affected by the crisis. The authorization of these payments may be fast-tracked to deliver timely help. As a result, it may be tempting to reduce, or even disregard, due diligence around the recipients of such funds. While making contributions to causes is a helpful and important mechanism to “give back,” it will be important to determine that they are not perceived as being a favor or conditional on securing future business relationships.
- ▶ **Relationships with government:** Once the COVID-19 crisis is under control, there will be an increased flurry of activity as governments, banks, corporates and individuals return to BAU activities. Governments will seek to fund stimulus packages issued during the crisis, and the financial sector will be crucial in supporting the issuance of bonds and other products. There have been a number of high-profile bribery and corruption cases linked to banks’ issuance of sovereign bonds, so this should be an area of heightened scrutiny at this time.

What does this mean for you?

In the short-term, organizations may need to relax controls on account of business and supply chain disruptions due to illness, cash flow or stock shortages. While focus on sustaining business activity is important, some steps can be taken to reduce potential exposure to bribery and corruption risks, both now and in the future:

Immediate actions

- ▶ In addition to checking in on the well-being of employees, communications could include reminders of the values and ethical standards that apply, even if business operations have moved to being almost completely online. Links to codes of conduct, whistle-blower policies and links to intranet sites, training and guidance could be helpful material to be included for quick reference.
- ▶ Identifying a triage for exceptional compliance approvals might be required. As mentioned above, interactions with government clients, as well as approvals of intermediaries and donations, may require additional scrutiny at this time. This may involve identifying alternative due diligence and authorization procedures for the transactions and payments deemed high risk. It will be key to determine the levels of authorization and the base-level information needed to enable swift decision-making. All of these should be clearly documented so that post-crisis reviews can be carried out.
- ▶ Travel, hospitality and gift expense claims (current or delayed) should be scrutinized as, with most businesses under lockdown and travel plans canceled, there is limited scope for this type of spend.

After the crisis has settled

A review of major hiring decisions (especially when asked to provide paid or unpaid work experience for relatives and friends of staff, clients and third parties during these times), contracts, transactions and payments over the crisis period should be undertaken, in order to understand if any risk reduction and management is required. Consider leveraging technology to make these processes easier: e.g., analytics to review high-volume, low-value transactions such as gifts and entertainment or payments to third parties to identify outliers during this period.

- ▶ A review of vulnerabilities that have arisen from the crisis – specific controls that were not adequately designed or not operating effectively or efficiently – should be undertaken. Consider whether any controls that were revealed to be redundant could be streamlined.
- ▶ Organizations should confirm that whistle-blowing channels and supporting infrastructure are still available to employees and third parties to report any inappropriate behavior identified during the COVID-19 crisis. Even if there is no immediate capability or capacity to investigate, once the dust has settled, a review of matters reported can be undertaken.
- ▶ Trends and typologies related to adjusted contract terms should be identified during this period. If there are unusual spikes where terms have been modified outside of a normally expected tolerance to account for the COVID-19 disruption, they could be indicative of potential items of value that have been exchanged to obtain an unfair advantage.

Key contacts

For further information, please contact the Financial Crime and Forensics team.

Rachel Sexton
Partner, Ernst & Young LLP
+44 20 7951 1179
rsexton1@uk.ey.com

David Higginson
Partner, Ernst & Young LLP
+44 779 877 4840
dhigginson@uk.ey.com

Glenn Perachio
Partner, Ernst & Young LLP
+44 20 7951 4628
gperachio@uk.ey.com

Julie Fenton
Partner, EY Business
Advisory Services
+353 86 383 5556
julie.fenton@ie.ey.com

John Clinton
Associate Partner, EY Business
Advisory Services
+353 87 231 5205
john.clinton@ie.ey.com

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