

14. Potential money laundering and terrorist financing risks related to the Covid-19 pandemic broken out in the period 2020-2021

This chapter of the Report was prepared by the working group including the representatives from the following authorities:

- Financial Supervision Authority
- Internal Security Service
- National Criminal Police
- Tax and Customs Board
- Financial Intelligence Unit
- Prosecutor's Office
- Ministry of Finance
- Ministry of the Interior

14.1. Problems revealed due to Covid-19 and related risks

According to Europol^{1,2,3}, and Interpol⁴, COVID-19 and the related restrictions have had an impact on covert crime, complicating the life of criminals and at the same time providing new opportunities for committing crimes. The COVID-19 crisis may allow investment fraud to be committed, where the unprofitable nature of their investments is justified to the client. During a pandemic period, one of the potential risks is the illicit preference of certain bidders in procurement and the restriction of competition. The increased demand for personal protective equipment and disinfectants may be exploited in procurement to provide inadequate protective equipment or commit prepayment fraud. As a new threat related to vaccination, the supply of counterfeit vaccines and falsification of vaccination certificates may rise. Funds obtained through illegal methods caused by the pandemic may be channelled into the financial system.

The Covid-19 pandemic has caused the following problems:

- Unemployment. Also some people have lost their jobs or, for example, their wages have been reduced and, as a result, they are looking for quick ways to earn extra money, which makes them a good targets for investment scammers.
- Exploitation of people. People whose economic situation has deteriorated and who have no savings are a good targets for unreasonable loan offers. For example, the FB group, where individuals offer loans, has been covered in the media.
- Unreasonable investment decisions. People stay more at home, which means that there is more time to pay attention to investment offers and to opportunities circulating on the social media (especially FB and TikTok) and, as a result, to make unreasonable investment decisions.
- Time-criticality in the control of payments related to health care products. Various scams related to the production/sale/intermediation of protective equipment, often in very large amounts, time-critical action by the FIU is required while international communication is hampering investigation. Small unknown companies enter into contracts with large financial obligations (trilateral contracts, intermediation). If the transaction fails, they do not have financial coverage to compensate the damage for counterparty, which may result in subsequent damage to the Estonia's reputation, as the counterparties are often state agencies of different foreign countries. In addition, it is difficult to determine at the moment of possible fraud

¹<https://www.europol.europa.eu/publications-documents/beyond-pandemic-how-covid-19-will-shape-serious-and-organised-crime-landscape-in-eu>

² <https://www.europol.europa.eu/newsroom/news/corona-crimes-multi-million-face-mask-scam-foiled-police-across-europe>

³ <https://www.europol.europa.eu/newsroom/news/europol-warning-illicit-sale-of-false-negative-covid-19-test-certificates>

⁴<https://www.interpol.int/News-and-Events/News/2020/INTERPOL-warns-of-organized-crime-threat-to-COVID-19-vaccines>

(transferring the customer's money to the intermediary) whether it is a fraud or whether the goods actually sold will reach the customer in the future. Thus, at the moment when the counterparty becomes aware that they are victims of a scam, the funds have already left the Estonian financial system. As the producer is usually a country with which the international exchange of information on money laundering is deficient (e.g. China, India), it is impossible to obtain fraudulent funds from there, as well as to obtain information.

• Difficulties in the application of due diligence measures. Businesses and individuals use the pandemic in various cases as an excuse for not submitting or delaying the documents, required for inspections and application of due diligence, to the obliged entities, to justify cash transactions (don't trust banks, therefore keep money at home); customers do not come to the office to identify themselves on the spot, referring to the pandemic and fear, etc.

Short summary

All of the problems above create a favourable environment to commit the predicate offences of the money laundering and also for subsequent money laundering and terrorist financing. Based on the above, it is important to:

1. Raise public awareness of the increased level of risk of fraud and related money laundering and terrorist financing risks associated with the Covid-19 pandemic.
2. To emphasise the continuing importance of their due diligence to the obliged entities and the need to pay special attention to the new risks involved in the performance of their due diligence.
3. Refocus the activities of supervisory and investigative authorities to the new risks.

14.2. Proposals for risk mitigation measures in the situation caused by Covid-19

In order to mitigate the identified money laundering / terrorist financing risks, the awareness of all the parties should be raised and the exchange of information among them should be enhanced:

- to raise public awareness on potential threats. Extensive awareness-raising for ordinary citizens, authorities, and businesses through training, articles, and other channels in order to be vigilant in the application of due diligence measures at all times, especially for new business partners and start-ups.
- to consider establishing the requirement for notifying the FIU. With this requirement it would be possible to establish the obligation for the holder of the activity license (member of the management board of the company) to inform the FIU if the member of the management board is away from Estonia for several months, together with an overview of the planned activities of the company during his/her absence, etc.
- The supervisory and investigative authorities to pay particular attention to the additional risks of money laundering and terrorist financing arising from the Covid-19 pandemic and to take appropriate measures to mitigate them.