

MONEY LAUNDERING AND TERRORIST FINANCING RISKS ASSOCIATED WITH THE HEALTH AND ECONOMIC CRISIS OF THE COVID-19 PANDEMIC

TYOPOLOGICAL ANALYSIS OF THE MAIN RISKS IDENTIFIED

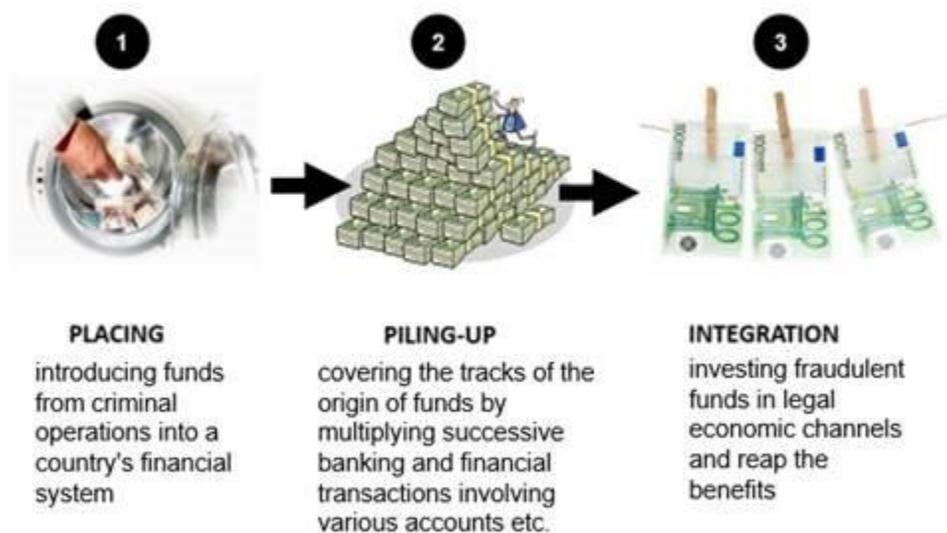
Considering the AML/CFT (anti-money laundering and counter-terrorist financing) threats arising from the COVID-19 crisis, TRACFIN provides the entities subject to the AML/CFT regime with an analysis of the main frauds and money laundering risks identified. This paper intends to sensitize all reporting entities to increase their vigilance on the specific risks related to the COVID-19 pandemic and also to specify the alert criteria that could be implemented in their risk mapping.

As a reminder, only TRACFIN deals with the suspicious transaction reports provided by reporting entities who have identified financial transactions that they know, suspect or have a good reason to suspect they come from a violation punishable by a custodial sentence of more than one year or that are linked to financing terrorism. In the current context, professionals must report financial transactions relating to:

- **The predicate offence itself:** the economic situation must lead professionals to pay particular attention to the activities of companies at all stages by including in their risk-based approach economic and financial offences that are specific to the current health crisis;
- **Money laundering:** TRACFIN also draws the attention of entities subject to the AML/CFT regime to the fact that they could be used as vectors in the integration of funds from criminal origin, and more particularly companies in difficulty or acting in the real estate sector.

* Cf. Article L. 561-15 of the Monetary and Financial Code.

The 3 phases of money laundering



Since the beginning of March 2020, TRACFIN has processed around one hundred suspicious transaction reports and disseminated around twenty files directly or indirectly related to the COVID-19 crisis. This paper provides an analysis of the information gathered through these files.

FRAUD RELATED TO THE TRADE OF MEDICAL SUPPLIES : FICTITIOUS OR NON-COMPLIANT SALES

The crisis has created conditions for the development of specific scams linked with the trade of Medical and sanitary equipment. TRACFIN has carried out investigations related to fictitious sales of medical supplies or to sales operated by companies with no experience in the medical sector. The de-confinement period, by implying the compulsory wearing of masks in some public areas, may intensify this trend.

Fictitious sales of medical supplies

Criminals take advantage of the high demand of medical supplies to achieve fake sales of masks, hydro-alcoholic gels and life supports. They pretend to be manufacturers and suppliers of medical equipment and adapt their sales pitches with false invoices. Once the purchasers have paid the invoice, the funds are quickly transferred to the fraudsters' personal accounts while the products ordered are never delivered.

The targets are diverse: they are hospitals and pharmacies, as well as entities - public or private - that intend to equip their employees or agents: companies of different sectors pursuing or restarting their businesses, or even local authorities anticipating the de-confinement period.

In most cases, the patterns observed have common characteristics and lead to relevant alert criteria. Particular attention should therefore be paid to :

- newly created companies or dormant companies reactivated recently ;
- changes in the corporate purpose occurring in March-April 2020, allowing trade in medical and/or health equipment ;
- websites presenting the characteristics of a fake site: domain name recently acquired, limited number of products offered and subject to a brief description, spelling mistakes, etc. ;

- documents presenting inconsistencies to justify the purchase of sanitary equipment: price gap between the purchase order and the invoice, discrepancies between the unit prices and those applied on the market, contradictions between the address of the supplier indicated on the purchase order and the address mentioned on the invoice ;
- lack of financial transactions confirming the order of sanitary equipment from a supplier ;
- combination of several means of payment (letters of credit, remuneration of intermediaries, etc.) linked with individual accounts or accounts located abroad.

INCREASING VIGILANCE AT ALL STAGES IN THE LIFE OF A COMPANY

At the stage of its creation: following the recovery of the economic activity in France since 11 May 2020, a small number of companies will benefit from funding or from a favorable context for creation. Therefore, the documents provided to identify the company and the consistency of the company's corporate purpose with the manager's professional background should be checked scrupulously as soon as the company is registered to the commercial court registry.

In case of economic difficulties: the cessation of a significant number of activities threatens economic sectors such as tourism and catering. Small and medium-sized enterprises, which are economically weakened and traditionally more vulnerable to AML/CFT risks, will require special vigilance. **Court administrators and judicial agents are requested to make a special effort** regarding safeguard procedures. Assignments of professional claims, takeover bids and links between creditors and debtors are vectors for the injection of funds of potentially criminal origin and deserve special attention. For their part, **professionals working in the financial sector will be able to focus their vigilance on assignments or transfers of fixed assets that could potentially corroborate insolvency organizations.**

On liquidation: the receiver and administrator officers will have to ensure that the wage guarantee scheme has been legally activated by checking in particular the compatibility of remuneration and employment contracts and by carrying out additional checks in the event of rotating management within the company.

Typological case

Company A, a temporary employment agency, made a transfer of 35 k€ to the personal account of Mr X, presenting itself as an intermediary, for the purchase of protective masks in the context of the COVID-19 pandemic. According to Mr. X, this operation corresponds to the payment of the deposit for an order of masks for a total amount of 79 k€ made by company A. However, there is no financial transaction on his account that justifies the purchase of medical equipment from a supplier. All of the funds corresponding to the order placed by the company A were transferred to the personal account of a third party, Mr Y, manager of two companies specializing in the selling of automobile equipment. Mr Y retroceded part of the sum to Mr X (15 k€) after having invested most of the funds in his savings accounts. Mr X probably never acquired the masks ordered by company A.

Risks of purchasing unauthorized/unlicensed equipment

Investigations carried out by the Service also reveal that many companies, not specialized in the medical sector, have been engaged in the trade of masks and other medical supplies since the beginning of the COVID-19 crisis. In most cases, they act as intermediaries for foreign suppliers. These companies, which are mainly active in sectors that are considered to be at risk by the Service*, are acting outside the scope of their corporate purpose or have very recently modified it.

Some companies manage to reach large firms or medical institutions. In these circumstances, the selling of medical supplies by companies that are not specialized in this industry raises significant risks of non-conformity in terms of quality, price and compliance with regulations relating to the import/export of medical equipment.

Very often, the activity of the companies was considered as dormant until the COVID-19 crisis occurred. **The reactivation of a dormant company which has no connections to the medical equipment industry or the recent modification of its corporate purpose in order to include trade in the medical sector should therefore constitute alert criteria.**

ADOPTING REFLEXES FOR REAL ESTATE TRANSACTIONS

Concerning the purchaser: the origin of the funds, one of the main elements to be checked by **notaries and real estate professionals**, will have to be subject to additional and systematic due diligence. **The activation of a substitution clause within a period very close to the signature of a deed will constitute a major warning criterion.**

Concerning the seller: the prevailing rules on social distancing and the limitation of travel within fairly restricted perimeters are not favoring the immediate dynamics of the real estate market. During this period, notaries and estate agencies will be able to be **vigilant about the seller's financial particularities (notably bridging loans) or the over- or under- valuation of a property.**

RENEWED OPPORTUNITIES FOR LAUNDERING FRAUDS AND SCAMS IN THE CONTEXT OF COVID-19

The current pandemic and the high demand of medical supplies are creating new opportunities for criminals to adapt commonly encountered scams such as false money orders. In addition, there are significant risks of misappropriation of public financial aids set up in order to address the crisis.

Scams through false transfer orders

The classic pattern of false transfer orders is applied here to the medical / health equipment industry. Criminals interfere in the orders placed between the suppliers, generally located in Asia, and their customers. The transaction instructions originate from an e-mail account closely resembling to the initial address of the supplier; the fraudulent address has been slightly altered by adding, changing or deleting one or more characters. Through this email account, the criminals communicate new banking details in order to collect the funds.

TRACFIN notes that the fraudulent funds are, in most cases, transferred to accounts located in Asia. Particular attention must therefore be paid to the formalism of the orders and the conformity of the supplier's email account.

*Sectors identified: Building and Public Works, IT, telephony, food trade, consulting.

Fraud in the call for donations

Criminals also take advantage of the health crisis to distort public authority identification elements in order to ask for aid and donations from companies and individuals. Adopting a phishing strategy, fraudsters create domain names or e-mail addresses invoking the public administration and use fake solidarity funds to collect donations to the detriment of their victims. As with the false transfer orders, domain names that evoke public administration, such as the use of the ".gouv.fr" format, and the lack of classic formalism must lead to additional checks.

In this particular context, crowdfunding projects are also used as a vector to collect funds of illicit origin by pretexting helping countries in difficulties or health care staff. TRACFIN has observed that the funds transferred through these crowdfunding initiatives can come from stolen bank cards.

Fraud by misappropriation of the state-guaranteed loan scheme (PGE)

Due to the financial burden caused by the COVID-19 crisis, the government has set up state-guaranteed loans that can benefit to a large number of companies. Some companies try to take undue advantage of this measure by applying for this loan despite a stable economic and financial situation or when their current situation do not make them eligible for it. The financial situation of the companies applying for public aids must therefore be examined carefully.

More broadly, this analysis highlights the risks of misuse of public aids set up by the government in the context of the crisis to help companies to cope with the financial difficulties caused by the fall in their turnover*.

*The support package for the health crisis is available at <https://www.economie.gouv.fr/covid19-soutien-entreprises/les-mesures#>.

AN ANTI-FRAUD UNIT SET UP AT BERCY.

An "anti-fraud" unit set up by the "Direction Générale des Finances Publiques" (DGFIP) was created on April 2, 2020 in order to monitor the quality of the suppliers to local authorities and public establishments. The aim of this unit is to organize the processing of requests made by local public accountants from the end of March.



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Typological case

In two months of existence, the company A, specialized in the building and public works sector and created in March 2020, receives on its account more than 500 k€ coming from several French companies acting in the same sector in spite of an economic context not very favorable to such a volume of business. The funds are partly used for orders from foreign mobile phone sales companies and for the purchase of hydro-alcoholic masks and gels from another European company for an amount of 300 k€.

The youthfulness of the company, its intensive activity despite the current economic situation, and the transactions realized in sectors that are not relevant regarding its corporate purpose are all indicators that lead to the suspicion of a piling up phase in a concealed labour laundering scheme.

Reconversion of conventional money laundering schemes involving high-risk sectors

As described above, the health crisis has favored the trade of medical and health supplies. Networks of companies active in sectors that are usually identified by the Service to be involved in schemes aiming at laundering undeclared work are taking advantage of the context to justify suspicious transactions through the purchase of medical equipment.

A BREEDING GROUND FOR AGGRESSIVE INVESTMENT STRATEGIES

Due to the economic context deteriorated by the health crisis linked to the COVID-19 pandemic, companies with cash flow difficulties could be led to open their capital more easily to investors with dubious interests in order to guarantee the sustainability of their activity. This context reinforces the need to focus on sectors of activity that are strategic for the interests of the nation.

