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Establishing an Agile Response Process to Crisis and Conflict-related Modern Slavery and Human Trafficking Risks

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Key recommendations:

- Monitor ongoing and emerging crises – through automated keyword searches and analyses of media articles and information disseminated by organizations specialized in crisis forecasting.
- Assess whether a crisis is likely to impact on a financial institution's business. For example, examine client and correspondent bank relationships with the country in crisis.
- Assess whether a crisis is likely to increase modern slavery and human trafficking (MS/HT) and to what extent. For example, assess levels of displacement, the economic needs of the affected population, and the extent to which families are separated and children are deprived of parental care.
- Identify specific MS/HT risks – related to pre-existing vulnerabilities, for instance, and whether men or women and children have mostly been displaced.
- Adopt risk-mitigating measures – including 'Know Your Customer (KYC)' due diligence and transaction monitoring.
- Continuously monitor new information – to stay informed of new developments and make informed decisions to mitigate the impacts of a crisis.

Introduction

In a constantly changing world, financial institutions must continually adapt to new risk factors. Regional or global crises like war or natural disasters, in particular, can trigger or fuel criminal activity and related risks,[1] including MS/HT. Increased vulnerability during crises can expose people to exploitation by criminal actors, often resulting in a rapid increase in trafficking and/or exploitation activities. For financial institutions, a crisis-driven increase in MS/HT raises the risk that they will become inadvertently involved in associated criminal activities via the banking services they provide.

A recent example is the war in Ukraine and the resulting refugee flows to safe countries. As of early February 2023, more than 8 million people who fled Ukraine – mostly women and children – have been registered in other European countries.[2] Despite their increased risk of falling victim to MS/HT,[3] conversations between the Finance Against Slavery and Trafficking (FAST) initiative and members of the financial industry suggest that most financial institutions were not prepared to identify and mitigate the related risks in a timely way.

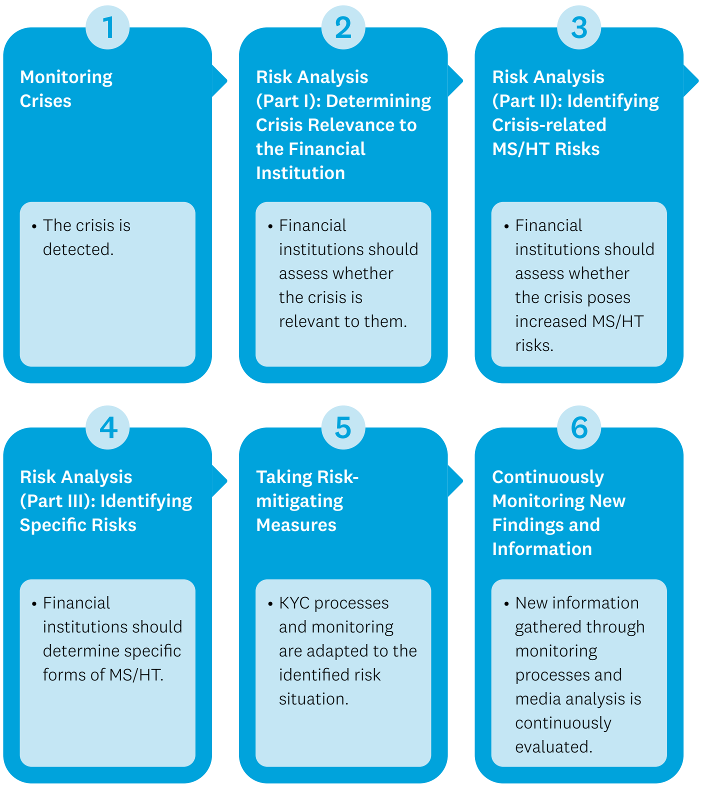
1 The Inter-Agency Coordination Group against Trafficking in Persons (ICAT), *A World in Crisis: Global Humanitarian Crises and Conflicts Increase Human Trafficking Concerns – Call for Action* (ICAT, 2022). Available at: https://icat.un.org/publications/icat-calls-stronger-action-and-cooperation-counter-human-trafficking-humanitarian.
2 "Operational Data Portal: Ukraine Refugee Situation," UNHCR, last accessed on 16 February 2023, https://data.unhcr.org/en/situations/ukraine.
3 "Ukraine Emergency Response in Neighboring Countries: supporting children and families on the move across Europe," UNICEF, last accessed on 16 February 2023, https://www.unicef.org/eca/ukraine-emergency-response-neighbouring-countries.

This policy brief has therefore been developed to help financial institutions become better prepared to respond effectively to these risks, introducing appropriate control and risk mitigation measures in a determined and swift manner. Recommendations outlined in the brief will not only help reduce any immediate risk of a financial institution becoming involved in the financing of MS/HT and related money laundering activities; they will also ensure that such activities can be identified, investigated, and possibly deterred, by relevant authorities at an early stage.

Risk Assessment and Mitigation: A Step-by-Step Process

To enable a timely response to trafficking risks associated with emerging crises, financial institutions should have a predefined process in place. The process should enable rapid implementation, take into consideration the limitations of available data, and should be adapted to the circumstances of the financial institution in question.

The following process flow – and the individual steps described below – can serve as a guide:



Step 1: Monitoring Crises

The first stage in the process involves financial institutions identifying the crisis. A crisis can have a national, regional, or global scope. Typical examples are wars, other armed conflicts, famines, and pandemics. Monitoring for new crises can be conducted through media analyses, analysing the information disseminated by organizations that specialize in crisis forecasting, such as the International Crisis Group, and/or via an automated keyword-based screening of new articles on the internet. In addition, a risk-based review of information sources from countries in which the bank has branches or is particularly economically active is recommended. Accordingly, the keyword-based search should not only be conducted in English and in the domestic language of the bank, but also in the languages of other relevant countries and regions.

The following terms and their respective translations are possible keywords that can be used: crisis; war; invasion; conflict; famine; disaster/catastrophe; refugees; fugitives; epidemic; and terrorism.

Step 2: Risk Analysis (Part I): Determining Crisis Relevance to the Financial Institution

The next challenge is to assess how likely or unlikely a crisis is to impact on the business of the financial institution. To decide whether a crisis is potentially relevant to a financial institution, relevant staff should consider the following questions:

- Are there existing customer relationships – with corporate and individual customers alike – in the country/countries affected by the crisis?
- Are there customer relationships in neighbouring countries of a crisis-affected country/countries?
- Are there correspondent banking relationships in the country/countries affected by the crisis?
- Are there correspondent banking relationships in neighbouring countries of the crisis-affected country/countries?
- Could crisis-affected populations potentially become customers at the bank?
- Do existing clients have relationships with the country/countries in which the crisis is occurring?
- Do existing clients have business relationships in neighbouring countries of the crisis-affected country/countries?
- Does the financial institution intend to expand into the country/countries affected by the crisis in the near future?
- Does the crisis have a foreseeable impact on the financial institution's country of residence (for example, implementation of embargoes/sanctions, expected refugee flows, overall economic dependence, and other political, military, and cultural impacts)?

The questions above are for support purposes only and are not exhaustive. The definitive decision as to whether a crisis is potentially relevant for a financial institution (and consequently whether increased control measures are needed) should be made by a person with relevant expertise or – especially in the case of larger institutions – by a committee or body designated for such decisions. The latter should be composed of suitable decision-makers from the financial institution who will make decisions based on an evaluative assessment of the overall situation. Suitable decision-makers include senior managers from the following sections: Anti-Money Laundering Departments, Embargo Offices, International Banking (relevant country managers), Credit Risk, and KYC Departments.

Step 3: Risk Analysis (Part II): Identifying Crisis-related MS/HT Risks

Once the designated body of the financial institution has determined that the crisis is relevant to the company, a thorough analysis should be conducted to assess whether the crisis is likely to increase MS/HT, and to what extent.

Trafficking risk factors may include, but are not limited to:[4]

- The economic needs of the affected population.
- The level of displacement triggered by the crisis.
- The extent to which families are torn apart and children are deprived of parental care.
- The existence of discriminatory or strict social norm constraints around women in the country where the crisis occurs.
- Limited education or knowledge of a foreign language among the majority of the affected population.

To be able to decide whether the prevailing crisis has contributed to or could contribute to specific trafficking risk factors, the following complementary sources of information can be consulted:

- United Nations Office on Drugs and Crime (UNODC): https://www.unodc.org/unodc/en/human-trafficking/index.html.
- Office of the Special Representative and Co-ordinator for Combating Trafficking in Human Beings at the Organization for Security and Co-operation in Europe (OSCE): https://www.osce.org/cthb.
- Council of Europe - Group of Experts on Action against Trafficking in Human Beings (GRETA): https://www.coe.int/en/web/anti-human-trafficking/home.
- United Nations: https://www.un.org/en/.
- International Organization for Migration (IOM): https://www.iom.int/.
- Organisation for Economic Co-operation and Development (OECD): https://www.oecd.org/.
- World Bank: https://www.worldbank.org/en/home.
- International Monetary Fund: https://www.imf.org/en/Home.

Step 4: Risk Analysis (Part III): Identifying Specific Risks

Depending on the information available, the identification of an increased risk of MS/HT can be supplemented by an analysis of specific risks. This is possible whenever the crisis has characteristics that make certain forms of MS/HT more likely than others. Monitoring for specific risks should subsequently enable the risk-optimized implementation of targeted compliance measures.

In general, the following assumptions can be made:

- If the crisis leads to the displacement of mainly men, there is an increased risk of forced labour.
- In the case of human flows composed primarily of children and women, an increase in sexual exploitation and labour exploitation activities are equally possible.
- If nationals of the country in crisis have already shown a high vulnerability to certain forms of exploitation or to exploitation in certain industries, an increase in such specific forms of exploitation is likely after a crisis begins.
- Should nationals of the country in conflict or crisis, or those in neighbouring countries, already be strongly represented in perpetrator statistics (in percentage terms) beforehand, an increase in criminal activity by the corresponding groups is likely after a conflict or crisis has begun. Should these groups specialize in certain forms of exploitation or exploitation in certain industries, an increase in these specific forms of exploitation is also likely.

At the beginning of a crisis, when there is limited access to information, a reaction based on empirically-founded assumptions can be sensible. However, it should always be kept in mind that these assumptions may turn out to be incorrect due to the ultimately unpredictable nature of a crisis. The assumptions made must therefore be continuously reviewed against updated information on the changing situation, and adjusted if and when necessary.

Step 5: Taking Risk-mitigating Measures

If the risk analysis shows that, due to an emerging or existing crisis, the financial institution is likely to face an immediate increased risk of involvement in MS/HT-related transactions, it should implement short-term, appropriate risk mitigation measures. Such measures may be considered for KYC due diligence, transaction monitoring, and other areas.

A first step should be to inform staff promptly about the need to take special measures. This can be done, for example, by means of a circular e-mail that briefly addresses the crisis, its relevance to the financial institution, and the associated increased MS/HT risks.

It is also advisable that the relevant message be signed by a member of the senior management and contains a clear statement against any involvement in MS/HT activities.

Employees should be actively encouraged to pay attention to certain suspicious behaviors. The examples given to employees should be selected following a risk-based approach while considering the nature of the crisis and the trafficking activities which are likely to be associated with it. Relevant indicators that might be considered include the following:

- Transactions not matching the information provided when the account was opened. In particular, when a customer has a disproportionately high volume of cash, but the documents used to open the account make no reference to a cash-intensive business.

4 United Nations Office on Drugs and Crime (UNODC), Global Report on Trafficking in Persons 2020 (New York: United Nations, 2020), p. 9.

- Frequent, implausible cash deposits.
- High account balances not matching customer profiles.
- Third parties accompany customers and monitor or influence banking processes.
- Third parties appear to have control of a customer's identity card.
- Multiple customers with the same or similar background, appearance, address, telephone number or employer appear simultaneously and open accounts exclusively with the same client relationship manager.
- Clients show signs of physical abuse.
- Forged documents or documents with different handwriting are used.

With regards to transaction monitoring, greater weight should be given to money laundering and MS/HT indicators that have already been implemented if they also show a link to the country in crisis. Such links are, for example, the country of origin or residence of the ordering customer (payer) or the domicile of the banks involved which can be taken from the country identifier in the SWIFT code.

If the risk analysis shows that criminal groups from third countries are likely to take advantage of the crisis, the corresponding country references should also be taken into account. If the risk analysis reveals that an increase in specific forms of trafficking in human beings is to be expected, specific indicators, for example those for sexual exploitation, labour exploitation, or child trafficking, should be considered.

In addition to the increased focus on already existing indicators, additional indicators should also be considered for the duration of the crisis:

- Monitoring correspondent banks: combining existing indicators with SWIFT code lists of banks from relevant border regions (for example monitoring high remittance amounts to or from banks on the list).
- Monitoring customers: increased monitoring of new customers with a connection to the crisis country (high-risk flag) or certain industries (for example massage salons, adult entertainment, or the construction industry). In particular, it is important to monitor whether these customers make unusually high transactions.
- Monitoring customers: any increase in the number or total volume of transactions related to the crisis country and neighbouring countries by existing customers should be monitored.

While various risk mitigating measures of varying intensity may be considered, financial institutions should refrain from suspending any activity related to the affected country (so-called 'de-risking'), since such behavior is inconsistent with the risk-based approach of the Financial Action Task Force (FATF) and ultimately only increases MS/HT and other (financial) crime risks.[5]

Step 6: Continuously Monitoring New Findings and Information

Responding to a crisis is not a one-time affair. On the contrary, it requires ongoing evaluation of the changing data landscape. Any measures taken must be reviewed, supplemented, or adapted based on the most current information available. A continuous analysis of relevant media, regular exchanges with NGOs and relevant authorities, and the financial institution's internal evaluation of previously identified and reported suspicious activities are essential sources of information. By regularly monitoring these sources, financial institutions can stay informed of new developments and make informed decisions to mitigate the impacts of a crisis.

5 Financial Action Task Force (FATF), *High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards* (Paris: FATF, 2021).

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