GLOBAL SUSTAINABLE DEVELOPMENT

FINANCIAL CRIME CONTINUES TO ENSURE THAT OUR EFFORTS MISS THE MARK
INTRODUCTION

Increases in wildlife trafficking and environmental crimes are presenting a challenge to the international community in achieving the United Nations’ (UN) Sustainable Development Goals (SDGs) by 2030. Our inability to disrupt the criminal networks that thrive on these crimes and flout environmental laws, directly impacts the achievement of a number of these goals, and both macro and micro initiatives are needed to turn the tide.

Join the conversation: #FightFinancialCrime
ABOUT THE UN’S SUSTAINABLE GOALS

The UN describes its SDGs as “the blueprint to achieve a better and more sustainable future for all.” They seek to address many global challenges, including those related to poverty, inequality, and climate and environmental degradation.

The Sustainable Development Agenda, which is based on 17 core goals,\(^1\) was unanimously adopted by the 193 Member States of the United Nations in 2015 and came into effect in January 2016, with a stated aim of achieving each goal by 2030.

\(^1\) For a full list of the goals, please see [https://www.un.org/sustainabledevelopment/sustainable-development-goals/](https://www.un.org/sustainabledevelopment/sustainable-development-goals/)
$15-23bn

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Individuals and organizations on the front line in the fight against financial crime have seen an increase in crimes involving illegal wildlife trafficking and damage to the environment, such as illegal logging and toxic waste dumping. Not only do these activities have an impact on local communities, many of which are amongst the most vulnerable and poorest on the globe, but they also affect the achievement of the UN’s SDGs.

According to the World Wildlife Fund (WWF), estimates of the value of illegal wildlife trafficking are in the region of $15-23bn per annum, making it the fourth largest illegal trade behind drugs, human trafficking and counterfeiting. Illegal trade in wildlife relies on highly sophisticated transnational criminal networks operating complex supply chains, and leads to the risk of other financial crimes, such as bribery and corruption, in areas such as logistics and import/export licensing.

In 2016, a report from UNEP-Europol estimated that environmental crime, including wildlife trafficking, illegal logging, illegal fishing, pollution crimes and illegal mining, was generating illicit funds for criminals in the range of $90-260bn per annum and was expected to grow at 5-7% annually. It also cited a lack of awareness amongst a number of issues preventing an effective response to these crimes.
On a more positive note, a systemic shift towards sustainable investment is already evident, with many governments and regulatory bodies developing policies focused on sustainable investment and related issues as part of their overarching strategies to meet the UN’s SDGs.

For example, in March 2019, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) hosted the first meeting of their joint initiative, the Climate Financial Risk Forum, with the FCA commenting that there is a need to “tackle a major threat to the future stability of the financial system” and that the forum will assist in “managing the financial risks from climate change as well as supporting innovation in green finance.” The PRA added that “climate change has the potential to create significant financial risks” and that it is important to “begin to act now if we are to ensure an orderly transition to a low-carbon economy.”

This was followed in June 2019 by then-Prime Minister Theresa May announcing that the UK would commit to “net zero” greenhouse gases by 2050, extending the UK’s previous target of an 80% reduction in emissions by this date.

Initiatives and targets such as these highlight an increasingly critical need for standardized and transparent data – including environmental, social and governance (ESG) data; fund and economic data; indices; carbon data and analysis; agricultural and commodities reports; energy and trading information; corporate governance intelligence; and developing news – that can empower individual organizations to make sound, sustainable investment decisions in line with government and regulatory policies and targets.

EXACTLY HOW GOOD IS THAT GOOD INVESTMENT?

When looking for the next big investment opportunity, the tendency is always to search for short-term gains. But the need to invest in a more sustainable, low carbon future is one of the most important challenges the business world faces today.

Refinitiv is at the forefront of this change. Our market-leading global environmental, social and governance data empowers our customers to make strategic decisions and allows them to work towards a more transparent and sustainable future. These are hard decisions that need hard data.

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THE DUE DILIGENCE GAP

In 2018, we commissioned a global survey to uncover the true cost of financial crime – economic, social and humanitarian – and gathered insights from over 2,300 senior managers at large organizations, both publicly listed and privately owned, across 19 countries.

The headline finding that 47% of the organizations that participated had been the victim of one or more forms of this type of crime in the year preceding the survey immediately shone a spotlight on the pervasive nature of bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking.

The survey revealed that many respondents’ organizations had extensive third-party networks: one in 10 had dealt with more than 10,000 third-party vendors, suppliers or partners during the preceding 12 months. Worryingly, just 59% of these third-party vendors, suppliers or partners were screened at onboarding and the same percentage was monitored and reviewed on at least an annual basis.

In 2019, we commissioned further research focused on gathering insights into how emerging technologies and collaborations can help to turn the tide against financial crime. This survey covered 24 geographies and gathered feedback from over 3,000 managers with compliance-related responsibilities at large global organizations. Headline findings once again confirmed that financial crime is widespread, with 72% of respondents confirming that they were aware of financial crime in their global operations during the 12 months preceding the survey. Again, respondents revealed significant gaps in their due diligence processes, with 51% of external relationships not going through a formal due diligence check at the onboarding stage.

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Enhanced Due Diligence

Enhance. Simplify. Protect.

Advanced background and integrity checks on any entity or individual, anywhere in the world. Protect your reputation, meet regulatory obligations and understand exactly who you are doing business with.

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Once again, trusted data is the key starting point...
FIGHTING BACK USING THE NECESSARY TOOLS

Identifying third-party risk

On an organizational level, every individual compliance team has a part to play in identifying and preventing financial crime. Best practice tells us that screening supplier and third-party relationships for financial crime-related risks and enhanced due diligence remain our best defense against financial crime. In the context of wildlife trafficking and environmental crimes, the adoption of risk screening, due diligence and regular monitoring of third-party relationships can help organizations ensure that they are operating sustainable supply chains and playing their part in the achievement of the UN’s SDGs.

The results of our financial crime surveys suggest that many organizations can make significant improvements in their ability to better understand the risk in their supply chains and, further, that they can take appropriate action to manage this risk effectively.

The starting point for developing a thorough and complete picture of customer and third-party risk starts with a solid foundation of consistent, quality data. Working from a solid starting point aids regulatory compliance, while relying on incomplete or inconsistent data could ultimately allow financial crime to remain undetected.
Supporting sustainable investment decisions

The financial sector can also play an invaluable role in actively promoting sustainable development. The ability for investors to make more informed decisions using ESG data, combined with an understanding of the potential financial crime risks associated with a company or investment project, creates the opportunity to deliver both superior returns to investors and the social benefits that embody the objectives of the UN’s SDGs.

Once again, trusted data is the key starting point, as sustainable investment decisions can only be taken with confidence when there is a solid foundation of reliable data to allow the formation of a truly holistic view.

Collaboration is key

With so many exciting emerging technologies coming on stream, it is perhaps easy to overlook another vital tool – collaboration. Whether across industries, geographies or governments, it has already proved key to maintaining standards and closing loopholes in the fight against financial crime.

According to our 2019 research, just over eight in 10 (81%) respondents say that there is some sort of existing partnership or task force (government, law enforcement, financial institutions and other organizations) in their country to combat financial crime – and 77% support it. 86% believe that the benefits of sharing information within such a partnership organization outweigh any risks.

Not only did survey respondents believe that such a relationship could support collaboration and help the fight against financial crime, 95% thought it would also benefit their own company in terms of reputation.

This response is welcome, as future collaboration could prove key to realizing the potential of innovation, particularly between tech companies, governments and financial institutions. One recent example is the U.S. Financial Crimes Enforcement Network (FinCEN) and its regulatory partners’ joint statement to encourage banks and credit unions to take innovative approaches to combating money laundering, terrorist financing and other illicit financial threats.
Refinitiv’s ESG data helps organizations assess both the risks and opportunities posed by companies’ performance in critical areas such as climate change, executive remuneration, and diversity and inclusion.
Combining data, technology and human intelligence

With a foundation of trusted data, the strategic implementation of leading-edge technology can help organizations in numerous ways, from reducing the burden on often overstretched compliance teams, to boosting operational efficiency and improving the customer experience. It is therefore unsurprising that 97% of our 2019 survey respondents believe that technology can significantly help with financial crime prevention, and many are already testing this theory.

A significant majority (79%) indicated that they already use cloud-based data and technology for crime prevention; while 53% are embracing API technology; 51% natural language processing (NLP); 44% artificial intelligence (AI) and machine learning (ML); and 44% blockchain, with the latter offering enormous potential as a tool to verify and protect the identity of those working in the supply chain and promote greater transparency.

Trusted data and technology must, however, be supported by invaluable human expertise and this is a view that was widely supported by respondents – 86% believe that humans are a necessary asset to source trusted data and train algorithms to create effective outputs.

Particularly where digitized data is limited or unavailable, for example in emerging economies where investment opportunities may be high, human intelligence becomes the key to identifying any underlying corruption risk, for example as a result of political association. Such invaluable intelligence is also critical when evaluating the environmental and social impact of any potential investment, and when conducting enhanced due diligence checks on higher-risk suppliers further down the supply chain. Investigative due diligence of this nature looks beyond that which is immediately apparent and drills down to uncover hidden risk.
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Intelligent data at your fingertips

Compliance teams striving to ensure that their internal operational processes uncover potential risk need effective financial crime screening data, collated from trusted sources, to provide complete coverage relating to politically exposed persons (PEPs); state-owned entities and state-invested enterprises; global sanctions lists; narrative sanctions; global regulatory and law enforcement lists; and negative media.

Screening data should also offer insights into ultimate beneficial ownership (UBO), since identifying the true beneficial owners of an entity is an essential part of thorough due diligence, but it is often a complex undertaking, as organizations are frequently required to unwrap complex and interwoven ownership hierarchies as part of the process.

Furthermore, in order to mitigate the risk of doing business at sea, vessel data including identity, location and ownership information should be obtained so that each vessel can be screened for potential links to corruption, sanctions or embargoed vessels or ports before it is engaged.

Complete data such as this helps organizations to form a holistic view of risk, which in turn leads to better decisions and enhanced compliance with regulatory obligations.

ESG data also has a crucial role to play in helping individual organizations to make better, more sustainable investment decisions.

Refinitiv’s ESG data helps organizations assess both the risks and opportunities posed by companies’ performance in critical areas such as climate change, executive remuneration, and diversity and inclusion. In order to promote the sharing of trusted data such as this, we have developed The Sustainable Leadership Monitor, a data-driven app that uniquely aggregates financial and ESG data to analyze the long-term orientation of companies and provide an invaluable tool for the private sector to make more informed decisions about their third-party relationships.
World-Check®

Uncover risk. Take action.

A powerful combination of data, technology and trusted human expertise to help:

• Simplify and accelerate risk screening
• Meet regulatory obligations
• Protect against financial crime risk

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... the private sector has a critical role to play in implementing complementary micro initiatives aimed at ensuring supply chain integrity and sustainable decision making.
Developing a strategic response

If the UN’s SDGs are indeed to be achieved by 2030, it is essential that both macro and micro initiatives are in place to help root out growing financial and environmental crime and promote sustainable investment. While macro initiatives are already evident at the government and regulatory level, the private sector has a critical role to play in implementing complementary micro initiatives aimed at ensuring supply chain integrity and sustainable decision making.

The pervasive due diligence gaps identified by Refinitiv’s extensive 2018 and 2019 research are cause for concern, because such gaps leave organizations’ supply chains vulnerable to exploitation by the criminal networks that perpetuate financial and environmental crimes. Not only can these gaps inadvertently contribute to a lack of success in achieving the SDGs, but the individual companies concerned remain at risk of regulatory fines and potentially devastating reputational damage. Risk at this level is simply too great to ignore.

The private sector must therefore develop a strategic response to identifying supply chain risk and supporting sustainable investment decisions through the use of trusted data, leading-edge technology and human intelligence.
Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in over 190 countries. We are new market pioneers with 167 years of confidence. We provide leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

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