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Olena Kuzmak

*Dr. Sc (Economics), Prof.,
Lutsk National Technical University, Lutsk, Ukraine
o.kuzmak@lutsk-ntu.com.ua
ORCID ID: 0000-0003-0394-0981*

Oleh Kuzmak

*Dr. Sc (Economics), Prof.,
Lutsk National Technical University, Lutsk, Ukraine
kuzmakoleg2312@gmail.com
ORCID ID: 0000-0002-1950-8416*

FINANCIAL COMPLIANCE IN WARTIME: CHALLENGES, RISKS, AND ADAPTATION MECHANISMS

Олена Кузьмак

*доктор економічних наук, професор,
Луцький національний технічний університет,
м. Луцьк, Україна*

Олег Кузьмак

*доктор економічних наук, професор,
Луцький національний технічний університет,
м. Луцьк, Україна*

ФІНАНСОВИЙ КОМПЛАЄНС В УМОВАХ ВОЄННОГО СТАНУ: ВИКЛИКИ, РИЗИКИ ТА АДАПТАЦІЙНІ МЕХАНІЗМИ

Анотація. Фінансовий комплаєнс відіграє ключову роль у забезпеченні економічної безпеки держави, стабільності банківської системи та зниженні рівня фінансових правопорушень. В умовах воєнного стану в Україні виклики у сфері фінансового комплаєнсу значно загострилися, оскільки зросли ризики фінансових злочинів, корупції, відмивання коштів, шахрайства та незаконного фінансування.

Аналіз показав, що в 2022 році в Україні було зафіксовано випадки легалізації доходів на суму понад 20 млрд грн, а також значний ріст фінансових шахрайських схем. При цьому міжнародний досвід свідчить про необхідність посилення цифрового контролю та інтеграції в глобальні системи фінансового моніторингу. У відповідь на загрози уряд розширив санкційні механізми та запровадив жорсткіші вимоги до фінансових установ. За результатами дослідження у 2022 році було виявлено спроби легалізації доходів на суму понад 20 мільярдів гривень згідно з дослідженням, проведеним YouControl, комплаєнс-функції активно впроваджуються в таких секторах, як комунікації та зв'язок, фармацевтика, IT та роздрібна торгівля.

Дослідження доводить, що попри значний прогрес у посиленні контролю, існують проблеми обхідних схем, недостатньої інтеграції у світові антикорупційні системи та ризиків нецільового використання міжнародної допомоги. Подальший розвиток фінансового комплаєнсу має ґрунтуватися на посиленні міжнародної співпраці, автоматизації регуляторних процедур і впровадженні найкращих практик цифрового контролю фінансових потоків.

Фінансовий комплаєнс в Україні під час війни балансує між жорстким контролем та необхідністю підтримки економіки. Україна впроваджує міжнародні стандарти, адаптує фінансове регулювання під кризові умови та розвиває FinTech-рішення для забезпечення стабільності. У перспективі необхідним є подальше посилення контролю за міжнародними фінансовими потоками та цифровими активами.

Ключові слова: фінансовий комплаєнс, економічна безпека, фінансові правопорушення, цифровий контроль, міжнародна фінансова співпраця

Abstract. Financial compliance plays a key role in ensuring the economic security of the state, the stability of the banking system, and reducing the level of financial crimes. Under martial law in Ukraine, the challenges in the field of financial compliance have become significantly exacerbated, as the risks of financial crimes, corruption, money laundering, fraud and illegal financing have increased.

The analysis showed that in 2022, cases of money laundering in the amount of more than UAH 20 billion were recorded in Ukraine, as well as a significant increase in financial fraud schemes. At the same time, international experience indicates the need to strengthen digital control and integration into global financial monitoring systems. In response to the threats, the government expanded sanction mechanisms and introduced stricter requirements for financial institutions. According to the results of the study, in 2022, attempts to legalize income for more than 20 billion hryvnias were detected. Compliance functions are actively implemented in sectors such as communications and telecommunications, pharmaceuticals, IT, and retail.

The research proves that despite significant progress in strengthening control, there are problems with circumvention schemes, insufficient integration into global anti-corruption systems, and risks of misuse of international aid. Further development of financial compliance should be based on strengthening international cooperation, automating regulatory procedures, and implementing best practices for digital control of financial flows. Financial compliance in Ukraine during the war balances between strict control and the need to support the economy. Ukraine is implementing international standards, adapting financial regulation to crisis conditions, and developing FinTech solutions to ensure stability. In the future, it is necessary to further strengthen control over international financial flows and digital assets.

Key words: financial compliance, economic security, financial crimes, digital control, international financial cooperation

Introduction

Financial compliance plays a key role in ensuring the economic security of the state, the stability of the banking system, and reducing the level of financial offenses. In the conditions of martial law in Ukraine, the challenges in the field of financial compliance have increased significantly, as the risks of financial crimes, corruption, money laundering, fraud, and illegal financ-

ing have increased. The war has caused serious economic shocks, forcing businesses, financial institutions, and regulatory authorities to adapt approaches to controlling financial transactions, assessing risks, and complying with regulatory requirements. The issue of adapting compliance mechanisms to new realities, including increased control over international transactions, sanctions policy, and changing regulatory environment, is particularly relevant. The Scientific Research on Financial Compliance in Martial Law Conditions will identify the main risks facing the banking sector, enterprises, and state institutions, as well as develop effective adaptation mechanisms to reduce financial threats. An important aspect is the study of international experience in regulating financial compliance in crises, which will contribute to strengthening the economic security of Ukraine and its financial system. In Ukraine, financial compliance is regulated by such laws as the Law of Ukraine «On Financial Services and State Regulation of Financial Services Markets» and the Law of Ukraine «On Prevention and Counteraction to the Legalization (Laundering) of Proceeds of Crime» [11].

It is important to study the challenges of financial compliance in martial law. Thus, the authors [5] note the growth of financial crimes and fraud in martial law and the presence of corruption and misuse of humanitarian aid. The authors note that martial law creates a chaotic environment that can be used by criminals to conduct illegal financial transactions, in addition, during war, significant amounts of humanitarian aid arrive in the country, which creates risks of embezzlement and misuse. Other authors [1] studied the role of Regulatory Technology (RegTech) in simplifying regulatory supervision and increasing the effectiveness of control, which is interesting for the experience of Ukraine.

Main part.

Financial compliance is a key element in ensuring the stability and transparency of financial systems around the world. Different countries implement their approaches to regulating the financial sector, adhering to international standards and national requirements. In Ukraine, the war is a special feature, which has left its mark on the financial compliance system. Thus, according to the State Financial Monitoring Service of Ukraine, in 2022, attempts to legalize income worth over 20 billion hryvnias were detected. According to a study conducted by YouControl, compliance functions are actively being implemented in sectors such as communications, pharmaceuticals, IT, and retail. In particular, the share of IT companies that have implemented compliance increased from 4.4% in 2018 to 11% in 2020. About 54% of the surveyed companies indicated that their annual budget for the compliance department does not exceed \$50 thousand. [12].



Fig. 1. Compliance with compliance requirements by Ukrainian companies [12]

According to YouControl, among other operational processes in companies, it is the verification of counterparties that is best automated [12]. That is, many companies are translating routine manual processes into machine algorithms. It is already obvious that automatic information processing will be a trend in the coming years.

To prevent the above-mentioned negative consequences and bring national compliance standards in line with international best practices, the National Bank of Ukraine has implemented relevant regulatory legal acts. By Directive 2013/36/EU on access to the activities of credit institutions and the prudential supervision of, as well as the guidelines of the European Banking Authority on corporate governance (EBA/GL/2017/11), the Regulation on the organization of the internal control system in Ukrainian banks and banking groups was developed, approved by Resolution of the NBU Board No. 88. Thus, the requirement of European legislation regarding the mandatory implementation of effective risk management and internal control mechanisms by financial institutions was fulfilled [9]. Since the beginning of the war in Ukraine, significant changes have occurred in the field of financial compliance, which are mainly aimed at strengthening internal control and risk management in financial institutions. The war in Ukraine has significantly changed the financial system and compliance regulation mechanisms. On the one hand, the state has strengthened control over financial transactions to prevent money laundering, terrorist financing, and evasion of sanctions. On the other hand, certain procedures have been simplified to support the economy and international transactions. The NBU and the State Financial Monitoring Service have strengthened control over transactions of legal entities and individuals, especially international transfers. Ukrainian financial institutions are prohibited from working with banks in these countries, as well as conducting settlements with companies that have ties to the aggressor. Banks and financial institutions are required to carefully check transactions and block accounts of persons suspected of cooperating with the Russian Federation or in money laundering schemes. In the first 8 months of 2023, the National Bank of Ukraine imposed 96 fines totaling UAH 292 million on banks and other financial institutions for violating financial monitoring and currency legislation. The largest fine of almost UAH 74 million was imposed on a financial company, while one of the banks received a fine of UAH 64.6 million.

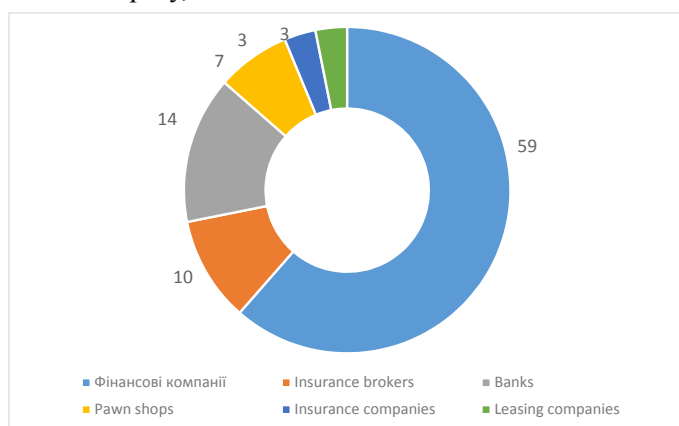


Fig. 2. Distribution of the number of NBU fines by type of financial institution for 8 months of 2023. *

* Built according to NBU data [8]

A detailed breakdown of the 96 fines shows that some primary financial monitoring entities (PFMs) received them for violating currency legislation. The majority of fines

fell on financial companies (59 fines). Financial companies are a heterogeneous segment that includes both microfinance institutions and payment systems [Finmonitoring].

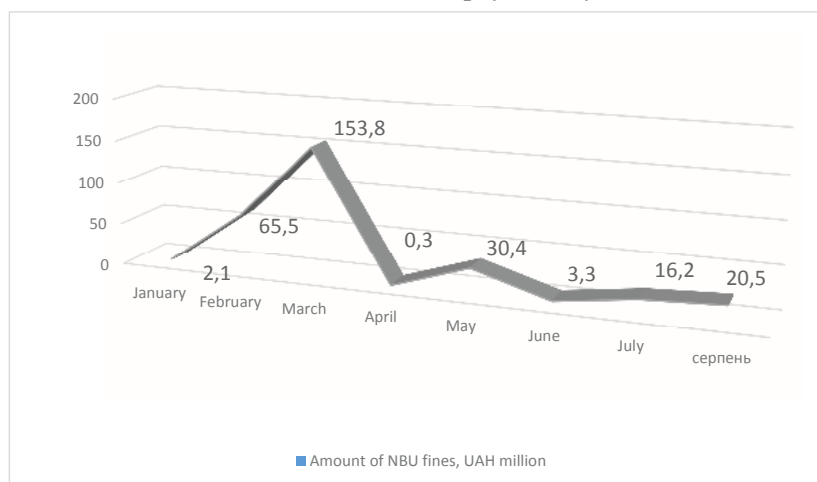


Fig. 3. Dynamics of NBU fines, UAH million, 2023

* built by the author according to NBU data [8]

Most of the fines are for violations of currency legislation and other regulatory acts of the NBU. In addition, Ukraine has implemented international sanctions and created its own mechanisms:

- Activities of the Interagency Working Group under the National Security and Defense Council (NSDC) on financial sanctions against persons associated with the Russian Federation.
- Implementation of FATF standards in the field of combating money laundering and terrorist financing.
- Blocking of assets of Russian residents in Ukraine.

Thus, in 2023, Ukraine at the legislative level expanded the list of financial institutions obliged to verify compliance with the sanctions regime, including banks, insurance companies, financial brokers, and even crypto exchanges. It is also worth noting that martial law accelerated the digitalization of the financial sector. In 2023, the Ministry of Digital Transformation of Ukraine developed a legal framework for regulating cryptocurrencies, which allowed volunteers and international partners to use digital assets to support Ukraine legally. Ukraine became the first country in the world to use cryptocurrencies to finance military needs. Thanks to crypto donations, more than \$125 million was raised in 2022 to help the army and humanitarian needs [6]. In general, most donations were made in ETH (ether), BTC (bitcoin), USDT (Tether), and BUSD (Binance USD). At the same time, the law «On Virtual Assets» was adopted, which allowed for the regulation of this sector.

Adopted State FinTech Decisions

- eSupport – a program of financial support for citizens in wartime.
- Action.City – a special legal regime for IT business, which stimulates economic development through low taxes and simplified regulation.
- eWork – a program of grant financing for small businesses to restore economic activity.

The rise in cyber threats during the war has forced banks and FinTech companies to strengthen the security of operations. For example, PrivatBank and Oschadbank have implemented new algorithms to detect fraudulent transactions, which has reduced financial losses by

30%. At the same time, the use of digital assets creates risks of illegal financing, as cryptocurrency transactions can be anonymous, and tracking them is a difficult task for regulators. Despite significant progress, financial compliance in Ukraine during the war faces several challenges, including an increased risk of corruption schemes in certain sectors, circumvention of sanctions, and illegal transactions through international «gray» zones and offshore. Another problem is Ukraine's insufficient integration into global financial monitoring systems (due to the lack of FATF member status). Digital finance fraud remains a significant problem. Thus, in 2022, there was an increase in the number of cases of financial fraud. The main schemes were phishing attacks, the creation of fake charitable funds, and fraud through social networks. To combat this, banks were instructed to implement additional cybersecurity algorithms.

Another challenge remains the effectiveness of controlling international financial flows. Ukraine has received record amounts of international assistance, including over \$43 billion in macro-financial support from the EU and the US in 2023 [12]. However, there is a risk of corruption abuses related to the distribution of these funds. Thus, financial compliance in Ukraine has significantly strengthened during the war but faces several challenges, including financial crime, fraud, risks of illegal use of cryptocurrencies, and control of international aid. The development of legislative regulation, strengthening of sanctions policy, and digital security are key areas for overcoming these challenges.

Conclusions Financial compliance in Ukraine during the war balances between strict control and the need to support the economy. Ukraine is implementing international standards, adapting financial regulation to crisis conditions, and developing FinTech solutions to ensure stability. In the future, further strengthening of control over international financial flows and digital assets is necessary. Financial compliance in the digital age is undergoing radical changes under the influence of technological innovations that allow for effective control over compliance with regulatory requirements, minimize fraud risks, and increase the level of financial security. In the context of global digitalization, automated compliance tools are an important element of a modern risk management and compliance system. They ensure effective interaction between different business units, promoting process consistency and minimizing the human factor in making critical decisions. An important aspect is the integration of automated compliance systems with other business processes, such as risk management, financial monitoring, and information security. Such synergy creates a comprehensive control mechanism that allows companies to proactively identify potential threats and take preventive measures to eliminate them. The most common compliance automation tools include Policy Management Systems, Transaction Monitoring Systems, and Risk Management Solutions. The use of digital RegTech (Regulatory Technology) solutions aimed at automating and improving compliance processes allows companies to quickly respond to changes in legislation, reducing the likelihood of non-compliance and the associated financial and reputational risks. One of the main advantages of RegTech is the ability to quickly update risk management systems by changes in the regulatory framework. Thanks to artificial intelligence, machine learning, and big data analytics, such systems can automatically track new regulatory requirements, assess their impact on business processes, and make the necessary adjustments promptly. Big Data and artificial intelligence are powerful tools that are fundamentally changing the approach to financial compliance, providing more accurate, fast, and effective data analysis. Big data analysis in combination with artificial intelligence plays a key role in the fight against money laundering (AML – Anti-Money Laundering), and financing of terrorism (CFT – Counter-Financing of Terrorism). The use of machine learning algorithms allows banks and financial institutions not only to react to already known fraud schemes but also

to proactively detect new patterns of suspicious behavior. This significantly increases the level of financial security and helps to avoid serious financial and reputational losses.

Therefore, it can be confidently stated that financial compliance is a key element of the sustainable development of enterprises, ensuring their financial stability, reputational reliability, and compliance with legislative and international standards. It promotes transparency of financial flows, prevents fraud, corruption, and money laundering, and also minimizes the risks of regulatory sanctions, which allows to avoid significant financial and reputational losses. Adherence to the principles of compliance strengthens trust from investors, partners, and consumers, increasing the competitiveness of the company in the market.

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