

Policy Brief

Institute of Defence and Strategic Studies
An Institute of Nanyang Technological University



Financial Response Project Countering of Financing for Terrorism (CFT)

by International Centre for Political Violence and Terrorism Research (ICPVTR)

EXECUTIVE SUMMARY

A successful terrorist group must be able to build and maintain an effective financial infrastructure to generate income, store the funds, move them around, launder the proceeds and make them available for committing terrorist acts. The ability of the groups to manoeuvre money quickly and anonymously across the globe, encompassing many national jurisdictions and embroiling global markets, has been one of the important dynamics that has made modern terrorism so threatening and destructive.

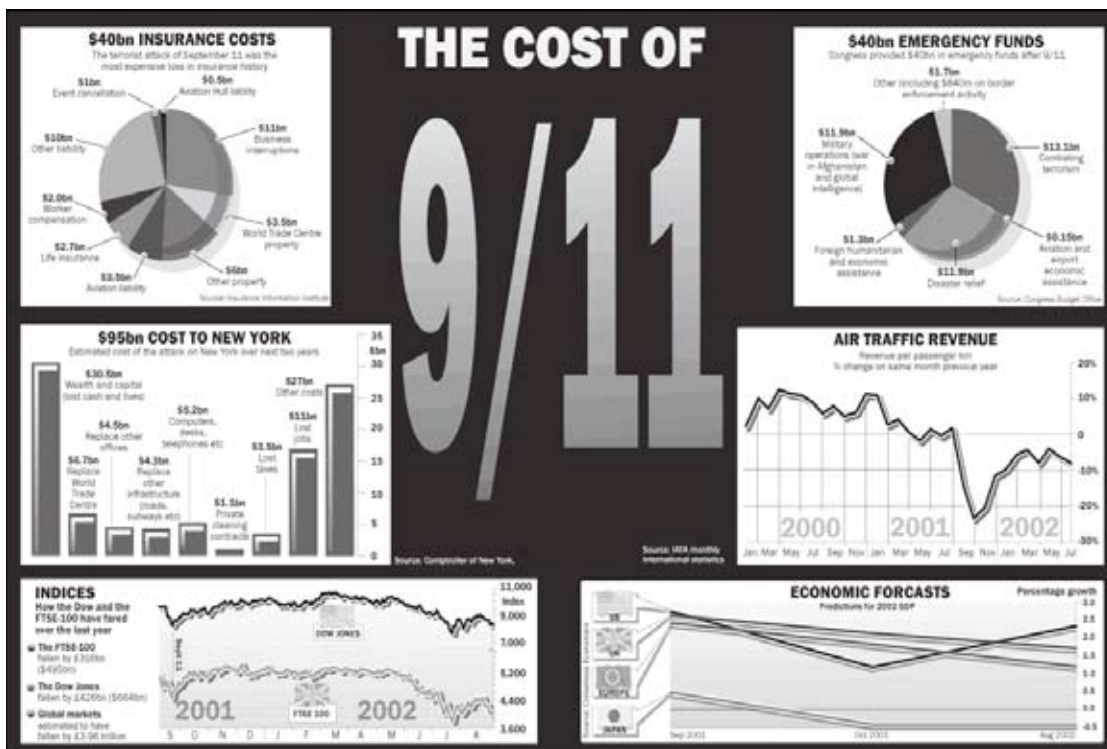
Financial Crime has increasingly become an important phenomenon in society today. With the annual industry size of up to US\$ 2,500 billion, many governments struggle to come up with effective legislation and implementation of counter measures. The continuous terrorist attacks that continue to happen since the 9/11 attacks on United States requires heightened

awareness on the importance of disrupting terrorist financial networks within the financial community. CFT uniqueness as a reversed money laundering process has given itself a deserved area of specialisation.

Much have been said about international, regional and local

cooperation and active sharing of information, however there has not been any concrete initiatives to combat terrorist financing as international standards may not apply similarly across all geographic locations.

Based on the assessment of issues surrounding financial crime, this



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policy brief includes 10 (ten) key recommendations encouraging more pro-active roles of various central members of CFT community, in order to build greater awareness of the problem as part of national, regional, and international counter terrorism effort, as well as more active cooperation, information sharing and improvement in CFT awareness through training.

BACKGROUND

It was only after the 9/11 attacks on United States, when many governments paid more attention to the problem of terrorist financing. United Nations provides leadership through its Security Council Resolution or UNSCR 1373 adopted in 2001, calling upon member states to criminalise terrorist financing, which to date, has been ratified and adopted by many nations. Financial Action Task Force (FATF) provides comprehensive guidelines, commonly known as the 40 plus 9 special recommendations on combating financial crime.

Financial sector has seen increased regulatory requirements in terms of AML/CFT compliance. In United States, violations for not having a robust AML/CFT compliance program, specifically in the area of knowing your customer and due diligence processes, could mean hefty financial penalties, legal process against banking personnel and / or suspension of a banking licence. While the banking sector is known to be robust in its anti money laundering measures, the CFT compliance program remains in its infancy.

It is important to note the key similarity and differences between the acts of money laundering and terrorist financing. In both money laundering and terrorist financing, criminals and terrorists exploit loopholes or other weaknesses in a legitimate financial system to launder criminal proceeds, to support terrorism and ultimately hide the actual purpose of their activity. Both money laundering and terrorist financing work in permissive environments with lax supervision from relevant banking authorities, poor risk-based customer due diligence process, lack of understanding on financial and non-financial indicators generated by suspicious transactions or activities, and the exploitation of banking system loopholes.

Terrorist Financing is often referred to as reversed money laundering as it focuses on using legal assets to carry out terrorist activities. These legal assets or sources of funds are often generated from clean sources such as charitable organisations and legitimate business organisations. Another key difference is the motivation, where terrorists are ideologically or politically motivated, as opposed to economic motivation of money launderers.

With the diminishing links between central Al Qaeda with its network in Asia, terrorist organisations are evolving in their ability to source, store, move, as well as use funds. They deploy a wide range of advanced international financing to traditional means such as the smuggling of cash. Irrespective of the evolving means of sourcing, storing, moving and using funds, a substantial portion of terrorist funds still goes through the formal banking system.

For better understanding of the key recommendations as proposed in this policy brief, it is useful that key relevant parties such as law enforcement agencies, financial regulators and financial sector at local and regional level, understand the principal issue relating to inadequate cooperation and communication processes in the mutual effort to combat terrorist financing, as well as money laundering. This key issue is also evident in other leading jurisdictions like Europe and USA.

Other issues surrounding financial crime on local, regional and international level can be summarised as follows:

1. Need to enhance understanding of the negative effect of financial crime
2. Need to enhance understanding of various CFT roles
3. Need to enhance understanding of CFT key concepts and problem areas
4. Human, Technology and Financial Resource implications
5. Variable attitudes shown by financial institutions towards CFT
6. Various jurisdictions with uneven pace of progress
7. Increasing nexus between crime and terror
8. Requirement for increased international cooperation

RECOMMENDATIONS

To be successful in countering terrorism infiltration into the banking

system, intelligence is required. With the increasing importance of financial intelligence and role of financial institutions, the countering of financing for terrorism deserves specialisation of its own. This section provides specific recommendation to three key players in CFT, namely the Law enforcement agencies including other government sectors, financial regulatory or supervisory sector, and financial sector.

1. Integration of Terrorist Financial investigation into National and Regional counter terrorism strategy

The financial sector and other non-financial sector, such as money services businesses, and e-commerce portals, hold enormous amounts of information on any person or entity. Due to this, financial investigation should be included and placed at the forefront of any counter terrorism strategies in both the pro-active and post-attack investigations.

Financial investigation provides opportunities to disrupt terrorist organisation and also good intelligence. At all stages of the legal process, the information gathered from financial institutions together with the use of technology, could provide good intelligence support for law enforcement and financial investigators.

2. Political willingness to support anti financial criminal effort

Currently countries are at varied stages of readiness. The lack of support at the political level slows down progress in implementation of effective AML / CFT regime. The failure of criminalizing financial crime and designation of terrorist groups also hinder formulation of an effective Counter Terrorism Strategy.

3. Regional CFT cooperation

Given the nature of the threat, there is probably no alternative to institutionalized cooperation both at the regional and international level to combat both the terrorism and the terrorist finance. Despite differences in jurisdictions, international and regional cooperation is critical in setting up a good working CFT regime. Countries need to assist each other to build up their

Terrorist Attacks	Date	Operational Costs (est)
London Bombings	7 July 2005	£ 7,240
Madrid train bombings	11 March 2004:	\$10,000
Istanbul truck bomb attacks	15 and 20 November 2003	\$40,000
Jakarta JW Marriot Hotel bombing	5 August 2003	\$30,000
Bali bombings	12 October 2002	\$50,000
World Trade Centre / Pentagon, USA	11 September 2001	\$303,672- \$500,000
USS Cole attack, Yemen	12 October 2000	\$ 10,000
East Africa embassy bombings	7 August 1998	\$ 50,000

Source: UN Monitoring Team Report / Aug 2004 and NTFIU

respective capabilities not only in building a hostile environment against terrorist financing but also in developing skills in CFT investigations. This would include sharing of intelligence as well as best practices and inducing private-public partnership both at the micro and macro level. This would reduce the concerns about competitiveness as well as resistance to implementing systems/processes to combat financial crime. Concern over competitiveness arises because of the uneven playing field caused by the lack of robust legislation on financial crime, resulting in money launderers and terrorist financiers to opt for jurisdictions with more relaxed legislations. Ironically, economies with stringent legislations are seen or perceived to lose competitiveness edge.

4. Financial Investigation Unit (FIU) to include other non-banking institutions into reporting of suspicious transactions and/or activities

Suspicious transaction or activity reporting regime should not be limited only to financial institutions, especially on banking sector alone. There are many other important sectors within the CFT community, which are still cash-intensive and hence vulnerable to abuse by financial criminals. These sectors include money service businesses, real estate sector, law firms, accounting firms and luxury goods industry.

CFT awareness programs must therefore reach these non-banking sectors, which are also at risk of being misused.

5. Technology Implementation and Standards

Financial crime such as money laundering and terrorist financing has become a technology-driven discipline. With improved technology, coupled with the means to identify and track such transactions, the financial sector can have a better chance to detect them effectively.

The local regulatory or supervisory bodies can help to set up rules on technology implementation for detection of AML/CFT related suspicious activities or transactions. They could also engage key industry players or bodies to work and consult on proposed guidelines or standards on technology implementation.

In addition, regional and international initiatives could also address concerns about increasing costs related to compliance and investments in technology, therefore technology can be affordable for smaller institutions.

6. Top management support

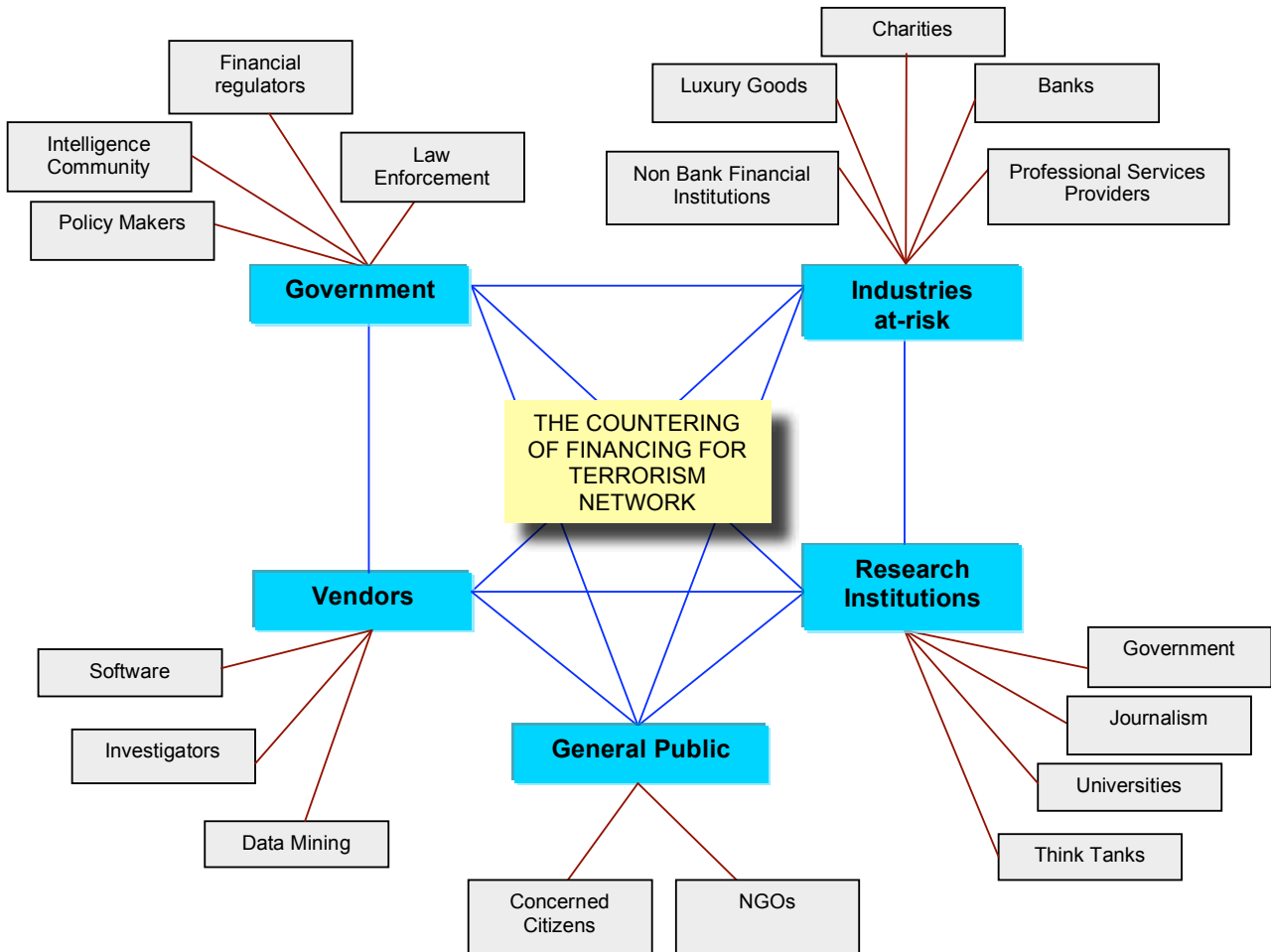
Active support from senior management of every financial institution is critical for creating a risk-based culture within the institution. Subsequently boards and senior management must demonstrate their support

roles, endorse CTF related policies and lead an awareness program in a firm and consistent manner and facilitate good decision-making processes on resources allocation.

7. Establishment of CFT investigation unit within banking sector

Banks need to understand the importance of the role that they play in the fight against terrorist financing. In United Kingdom's case, active participation of financial sector within its own industry and the active cooperation with other key CFT stakeholders has proven effective in the detection and prevention of terrorist attacks. Developing financial intelligence, through proper understanding and detection of irregular financial activities, such as structuring of banking transactions through multiple withdrawals below reporting threshold and mismatch between account holder occupation being a student and his/her transaction volume or amount, could allow credible identification of a terrorist linked person or entity.

With the current lack of feedback and communication, the financial sector bears the burden of choking off terrorist financing. The unit should strive to improve the communication between banking sector, regulatory bodies and Financial Investigation Units. Good communication and understanding of the problem can also improve the quality of suspicious transaction or activity reports (STRs / SARs)



to intelligence based reporting and move away from defensive reporting. This recommendation is in-line with recommendation one, which proposes integration of financial investigation into national counter terrorism strategy.

8. Establishment of Private and Public Partnership (PPP)

Apart from international and regional cooperation, active cooperation within the local level is also very important. It represents one critical success factor in combating terrorist financing. Active information sharing on best practices, financial crime cases, typologies, training material, and special projects should contribute into better understanding of terrorist financing issues for the CFT community.

CFT community is defined as one that requires a dynamic interaction among its key components – the financial institutions (FIs), the financial intelligence units/law enforcement agencies and financial regulators/supervisory bodies. This

is a particularly unique aspect of counter terrorism effort that requires a holistic approach to the problem based on true, equal partnership and trust

In the immediate future, the partnership should also extend to potential secondment of screened individuals to work with the law enforcement agencies, on financial investigation, development of best practices, terrorist financing typologies and policy formulation.

9. Development of core competency in CFT

To meet the challenge on raising higher awareness of all key members of CFT community on the importance of CFT and also to understand the power of financial investigation in any counter terrorism strategy, there is a need to build capacity, networks as well as human resources at the local and regional levels.

The core competency in countering of financing for terrorism shall therefore include, but not limited

to, initiatives such as, building comprehensive CFT training regime, building certification process in CFT for qualified specialists, building network with other international institutions for continuous training program improvement and establishing CFT professional association in the immediate future

10. Public awareness campaign of financial crime

There is a general consensus that awareness of this issue for the general public is important to reduce customer resistance to KYC (know your customer) practice. It is also imperative to sensitise the larger population about importance of creating a hostile environment for the terrorists to make and move money. With the acceptance of such role, less resistance to identification checks and better cooperation can be expected.

It is therefore recommended that the authorities endorse a public awareness campaign for financial sector staff and customers.