

**ABS Fellow Project**

**Counter Terrorist Financing**

**Financial Indicators**

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## Executive Summary

The purpose of this paper is to discuss the financial and/or non-financial indicators, which can help to deny the terrorist groups' access to the international financial system, to impair their ability to raise funds, hence isolating their financial networks.

The main goals of criminal and terrorist organizations are different, however they both must similarly build and maintain viable financial infrastructures to achieve their objectives. Money is required to manage the support and operational infrastructures, such as operating their training facilities, recruitment, indoctrination or propaganda, procurement of weapons and explosive materials, and sometimes even to support their legitimate business organizations.

Today, Banks may be unwittingly used as intermediaries for:

- Transfer or deposit of funds derived from criminal activity
- Transfer of funds or make payments from one account to another
- To hide the source and beneficiary
- To provide storage for bank notes through safe deposit facility

The report includes main sources of financing and discusses in great details on the types of financial related indicators and non-financial indicators, which can be used by Financial Institutions to detect the irregularity with a particular transaction.

# 1 Main sources of Terrorism Financing

In order to understand the types of profiles or financial activities that may trigger alert to the banking system with regards to financing of terrorism, it is important to understand the main sources of the terrorism funding, as described below:

- State sponsors;
- Individual contributors;
- Corporate contributors;
- Not-for-profit (NFP) organisation
- Non-Governmental organisation (NGO)
- Government programs
- Illegal or Criminal Activities

Another source where special attention should be placed, is the Islamic charities. These charities are important sources of support for hospitals, orphanages and also for other humanitarian purposes, however the managers of some charity organisations sometimes run a clandestine business supporting terrorist groups.

Financial Intelligence Authorities in many countries still find the identification of terrorism financing sources difficult, because terrorists typically conceal their financial activities through money laundering. Their financial arrangements are also characterized by anonymous or semi-anonymous relationships as well as lack of permanency.

Typical terrorist banking relationships often includes the following characteristics as follows:

- Inaccurate description of their occupation, i.e normally listed as student
- Address is usually not permanent and changes often. For example, they can be in form of mailboxes
- Accounts are opened with cash and cash equivalent averaging USD 3,000 and USD 5,000

Often viewed as similar activity, it is important to distinguish the different nature of the Terrorism Financing as compared to Money Laundering. Terrorism Financing can start off with very small amount, normally below the reporting threshold, which is USD 10,000. It remains a huge challenge for banks to be able to detect the irregularities from relatively small transactions that eventually go into the Terrorist Financial network.

The next section of this report will discuss in greater details, the financial and non-financial indicators, allowing Banks to detect the pattern of financial irregularities leading to Terrorism Financing.

## **2 Terrorism Financing Indicators**

The indicators for detecting possible flow of funds to be used for terrorist organization to launch their attacks can be categorized into financial and non-financial indicators.

This section describes detailed financial and non-financial activities, which can help Financial Institutions and/or Law enforcement agencies to raise certain degree of suspicion for further reporting to and investigation by Financial Intelligence Unit within their jurisdiction.

It may be argued that some of the indicators are normal banking activity and would not necessarily constitute terrorism financing, however it is important to note that the indicators are not mutually exclusive. Good understanding of 'abnormal' financial activity or combination of activities should enable Financial Institutions to detect irregularity in a financial transaction or activity.

For a terrorist attack to happen, there are three main criteria, commonly known as the terrorism triangle, namely, Opportunity, Motivation and Rationalisation. Loopholes in banking systems and procedures represent opportunity to the terrorist group and vulnerability of the banking system, allowing it to be penetrated by the terrorist group. To counter terrorism financing, further investigation is required, when these three conditions are present concurrently.

### **2.1 Financial Indicators**

#### **2.1.1 Accounts activity indicator**

This refers to irregular or unusual movement of funds from an account, in terms of timing, amount, usage as well as the activities within that account. Good attention should be made towards activities described below:

- Accounts that receive periodic deposits and are dormant at other periods
- A dormant account with minimum sum, then suddenly receives a deposit or series of deposits followed by daily cash withdrawals that continue until the transferred sum has been removed. The deposit or withdrawal can usually be made at amounts below regulatory reporting thresholds
- Account transactions that are inconsistent with past deposits or withdrawals. The deposits or withdrawals could be dominated by instruments such as cash, cheques, wire transfers, and so on
- Minimal or No payroll cheques deposited.
- High account turnover. An example of this is where an account has records of high turn over or cash flow, relative to the salary earned by the account holder, and money is further transferred to suspicious beneficiary (ies) locally and overseas.

Other indicators on account activity can also include:

- Numerous balance inquiries made on an account. Today, balance inquiries can also be easily made via the electronic banking platform of most banks
- Funding for normal day to day expenditures is not evident in that account, such as rent payment, utilities, standing instructions type of payments, insurance and so on
- No consistency with timing of deposits and disbursements

The Account activities discussed above are carried out, once the financial relationships have been established, which means that accounts have been activated and banking facilities have been assigned to those accounts.

There are other account activities that may raise suspicion, prior to commencement of financial relationship, such as the incomplete Account holder information and multiple account holders on a single account with no apparent business relationships or family ties. Financial Institutions should mitigate this by exercising proper identification and re-verification procedure on their customers, prior the commencement of financial relationships.

### **2.1.2 Transaction Activity indicator**

This indicator refers to the unusual pattern detected in a financial instrument, used to facilitate movement of funds.

#### **Deposits and Withdrawals**

- Large cash withdrawals made from a business account not normally associated with cash transactions. For example, large percentage of withdrawals via debit card relative to withdrawals via cheque
- Large cash deposits made to the account of an individual or legal entity when the apparent business activity of the individual or entity would normally be conducted in cheques or other payment instruments
- The structuring of deposits through multiple branches of the same financial institution or by groups of individuals who enter a single branch at the same time.
- The deposit or withdrawal of cash in amounts which fall consistently just below identification or reporting thresholds
- The presentation of uncounted funds for a transaction. Upon counting, the transaction is reduced to an amount just below that which would trigger reporting or identification requirements.
- The deposit or withdrawal of multiple monetary instruments at amounts which fall consistently just below identification or reporting thresholds, particularly if the instruments (eg. Cheques) are sequentially numbered. The cheques or money order are usually issued to the same person or business
- Lack of apparent fund-raising activity (i.e. lack of small checks or typical donations) associated with charitable bank deposits
- Cash debiting schemes in which local deposits correlate directly with ATM cash withdrawals in countries of concern overseas. Reverse transactions of this nature are also suspicious. For example, Account held in US, but withdrawn regularly in Myanmar or Nigeria
- Excessive use of monetary assets that can be used anonymously such as money orders and cashier orders.

## **Wire Transfers**

- Use of wire transfers for business activities that would not normally generate wire transfer activity
- Multiple Wire transfers ordered in small amounts (below the reporting threshold) in an apparent effort to avoid triggering identification or reporting requirements
- Wire transfers to or for an individual where information on the originator, or the person on whose behalf the transaction is conducted, is not provided with the wire transfer, when the inclusion of such information would be expected
- Wire transfers to or for an individual or entities, listed under restrictive order, such as the United Nations Embargo list
- Use of multiple personal and business accounts or the accounts of non-profit organisations or charities to collect and then funnel funds immediately or after a short time to a small number of foreign beneficiaries.
- Foreign exchange transactions that are performed on behalf of a customer by a third party followed by wire transfers of the funds to locations having no apparent business connection with the customer or to countries of specific concern.
- Corporate layering; that is, transfers between bank accounts of related entities or charities for no apparent reasons.
- Using multiple accounts to collect funds that are then transferred to the same foreign beneficiaries

### **2.1.3 Transactions linked to areas of concern indicator**

This indicates the flow of funds into countries or territories designated as non-cooperative by Financial Action Task Force. For example, Movement of funds through Cook Islands, Indonesia, Myanmar, Nauru, Nigeria and the Philippines and Payment to foreign beneficiaries in a Persian Gulf State

Financial Institutions need to apply heightened scrutiny to clients, beneficiaries and funds sourced from countries identified by credible sources as having inadequate anti-money laundering standards or representing high-risk for crime and corruption.

Attention should be paid to the following activities:

- Transactions involving foreign currency exchanges that are followed within a short time by wire transfers to locations of specific concern (for example, countries designated by national authorities, FATF non-cooperative countries and territories, etc.)
- Deposits are followed within a short time by wire transfers of funds, particularly to or through a location of specific concern (for example, countries designated by national authorities, FATF non-cooperative countries and territories, etc.).
- A business account through which a large number of incoming or outgoing wire transfers take place and for which there appears to be no logical business or other economic purpose, particularly when this activity is to, through or from locations of specific concern.
- The use of multiple accounts to collect and then funnel funds to a small number of foreign beneficiaries, both individuals and businesses, particularly when these are in locations of specific concern.

- A customer obtains a credit instrument or engages in commercial financial transactions involving movement of funds to or from locations of specific concern when there appears to be no logical business reasons for dealing with those locations.
- The opening of accounts of financial institutions from locations of specific concern.
- Sending or receiving funds by international transfers from and/or to locations of specific concern
- Transactions involving a high volume of incoming or outgoing wire transfers, with no logical or apparent purpose, that come from, go to, or transit through locations of concern (i.e., Sanctioned countries, non-cooperative nations, sympathizer nations)
- Wire transfers by charitable organizations to companies located in countries known to be bank or tax havens

#### **2.1.4 Account Holder Financial Profile**

The mismatch between the account activity and business purpose or nature can also help raise suspicion over the financial activity. The activities include:

- Financial activity inconsistent with the stated purpose of the business
- Financial activity that does not correlate with one's stated occupation

In relation to Customer due diligence process, the following characteristics of customer and their activities provide indicators to raise suspicion.

- Funds generated by a business owned by individuals of the same origin or involvement of multiple individuals of the same origin from countries of specific concern acting on behalf of similar business types
- Shared address for individuals involved in cash transactions, particularly when the address is also a business location and/or does not seem to correspond to the stated occupation (for example student, unemployed, self-employed, etc.).
- Stated occupation of the account holder does not match with the level or type of activity (for example, a student or an unemployed individual who receives or sends large numbers of wire transfers, or who makes daily maximum cash withdrawals at multiple locations over a wide geographic area)
- In the case of non-profit or charitable organisations, suspicion can be raised when there are financial transactions with no apparent logical economic purpose or when there is no link between the stated activity of the organisation and the other parties in the transaction
- A safe deposit box is opened on behalf of a commercial entity when the business activity of the customer is unknown or such activity does not appear to justify the use of a safe deposit box. Safe deposit box can be easily accessed by multiple individuals with the key, whose details are not recorded in most instances
- Unexplained inconsistencies arising from the process of identifying or verifying the customer (for example, regarding previous or current country of residence, country of issue of the passport, countries visited according to the passport, and documents furnished to confirm name, address and date of birth)

### **Distinctive Individual's financial Profile**

Individuals who have or have had positions of public trust such as government officials, senior executives of government corporations, politicians, important political party officials, their families and close associates require heightened scrutiny. They should be suspected when their financial pattern shows the following activities:

#### Pre Opening of Account(s)

- Request the opening of multiple accounts at a single bank with no apparent legitimate purpose
- Use of false identities and documents, when opening account
- Non-compliance of account opening guideline, where the account holder provides wrong or unverifiable information, during the account opening process
- Account with multiple individuals that have signing authority where these individuals have no relation among each other
- Account to be opened in the name of a legal entity, involved in the activities of an association or foundation with the same mission as those of a terrorist organization

#### Transaction activities

- Use of high dollar currency and traveler's checks that do not commensurate with business purpose/lifestyle/occupation
- An account opened in the name of a recently formed legal entity and in which a higher than expected level of deposits are made in comparison with the income of the founders of the entity
- Opening of multiple accounts into which numerous small deposits are made. The total amount of the deposits do not commensurate with the net worth or expected income of the customer
- An account opened in the name of a legal entity, a foundation or an association, which may be linked to a terrorist organisation and that shows movements of funds above the expected level of income

## **2.2 US Customs Service Office Recommendation**

The United States Customs Service Office of Investigation recommends a set of indicators, defined as Red Flag Indicators. This is developed in partnership with financial and trade communities in US, and encourages more businesses to initiate reporting of suspicious terrorist-linked financial and business transactions

The indicators are as follow:

- account transactions that are inconsistent with past deposits or withdrawals (cash, cheques, wires, etc)
- transactions involving high volume of incoming or outgoing wire transfers, with no logical or apparent purpose, that come from , go to or transit through locations of concern. i.e, sanctioned countries, non cooperative nations and sympathizer nations
- unexplainable clearing or negotiation of third party checks and their deposits in foreign bank accounts
- structuring at multiple branches or the same branch with multiple individuals
- corporate layering, transfers between bank accounts of related entities or charities for no apparent reasons

- wire transfers by charitable organizations to companies located in countries known to be tax havens
- lack of apparent fund raising activity, i.e, lack of small checks or typical donations, associated with charitable bank deposits
- using multiple accounts to collect funds that are then transferred to the same foreign beneficiaries
- transactions with no logical economic purpose , i.e no link between the activity of the organization and other parties involved in the transaction
- overlapping corporate officers, bank signatories or other identifiable similarities associated with addresses, references and financial activities

## **2.3 Non-Financial Indicators**

With regards to Financial Institution, non-financial indicators could also be useful in conjunction with financial indicators, hence raising the alert level within the institution and the whole industry, to look out for potential money flow into the financing of terrorist activity.

Non-Financial indicators can be obtained from state intelligence bodies and third party information such as newspaper, financial market data provider and internet. These indicators are categorized into two main groups. They are Strategic indicator and Tactical or Operational indicator.

### **2.3.1 Strategic Indicator**

Strategic Indicator includes the propaganda of terrorist groups over the media on an imminent attack over certain targets and also on recruitment. Such propaganda can be interpreted as requirement for funding to launch attack or recruitment process, therefore extra vigilance can be exercised over potential use of Banks in moving the funds.

Within the financial industry, sharing of credible information on suspicious transaction should also raise the level of awareness during a particular period of time.

### **2.3.2 Tactical or Operational Indicator**

Intelligence agencies could also provide information to the Financial Industry on operational movement or progress of a terrorist group, with potential imminent attack over specific target(s).

The sharing of information on procurement of explosive materials, completed recruitment and training process, communication between terrorist group members, transfer of financial assistance to fund the attack and other criminal activities should help raise the awareness.

### 3 Future Trend of Terrorism Financing

Financial movements and expenditures are critical component of attack preparations. Money plays important role as a connection between a known part of the terrorist network and the unknown part.

The financial and non-financial indicators described in earlier section are only some of the known vehicle used by the terrorist organization in moving their funds. Undoubtedly terrorist organizations will continue to use Charity organizations to facilitate their funds movement, given the non-hostile environment surrounding this method of financing, such as the lack of political will of some governments to make use of the available tools or indicators, the strong political backing of most Saudi-based charity organization and many others.

In the future, changes in the predominant patterns of financial transactions within and by a terrorist network would perhaps signal an extension of terrorist activities and a focus on a new set of targets. For example, utilizing the loopholes in the banking system, working with Banking personnels to commit banking fraud, insurance fraud, committing criminal activities designed to fund terrorist action or to provide support to other transnational terrorist organization

In Financial sector, the practice to exercise customer due diligence (CDD) is already in place. For example, checking transactions against account profiles on whether:

- The transfer of funds / deposit of funds is different from the original purpose of opening the account
- Irregular account activity as compared to the estimated net worth of the individual or organization
- Source of funds are from FATF non cooperative countries or other restricted economies

The issue in this case, is how much enforcement is exercised within financial sector in adopting and practicing their CDD procedures. If Terrorist Organisation today can recruit skilled US trained bio-chemical experts, there is no doubt that they can also gain support or recruit senior persons from financial institutions to facilitate the movement of their funds.

The indicators discussed in this paper provide a working model for Financial Institutions to combat terrorism financing. Even when funds transfer are made below the reporting threshold, the indicators raise awareness to gain suspicion over particular transaction(s), where further investigation can be made by submitting the report to designated Financial intelligence Unit, for further tracing of the fund flow.

It is understood that with the hundreds of thousands of transactions flowing into and out of the straight through processing systems via electronic banking platform automatically without further human intervention, this pose a huge challenge for financial institutions to decide between the issue of being flexible, customer-focus against risk awareness.