



Illicit Funds in Terrorism

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Introduction

There is no question that the financial crime enforcement community has continued to evolve and grow in the years since 9/11.

Unfortunately, this has also led to continued efforts by various terrorist and organized crime groups to find more covert means to fund their organizations. As an important part of the anti-money laundering community, we have and must continue to find ways to combat the financing and support of these groups, and we will need to continue to stand prepared against all future threats.

In the following chapters, we have hopefully assembled some valuable information and themes surrounding topics that include:

- the recent connections between the characteristics and funding of organized crime and terrorist groups
- the looting and trafficking of cultural artifacts and art
- the recent U.S. legislative proposals that attempt to outline strategies to combat these issues

While some may argue that terrorist groups and organized crime are very different organizations, there are some interesting similarities in the ways these groups recruit, operate, and fund their illicit activities. As these trends become more distinguishable, it is important that the AML/BSA/CTF community find ways to not only spot these trends but also thwart them.

This eBook will begin to explore the illicit activities that marry the

looting and trafficking of cultural artifacts and art, with the financial gains acquired by terror groups around the globe. With groups like the Islamic State of Iraq and the Levant (ISIL) – which has been classified by The United Nations as a terrorist organization in part to its actions involving human rights abuses and war crimes – occupying more than 4500 archaeological and cultural heritage sites, the writing is on the wall. While there are still challenges with how to address these issues, it does not mitigate the need for action to be taken by Financial Institutions and those connected with the financial community alike. We must find ways to prevent attacks on these sites, some even being UNESCO World Heritage sites, from continuing to be plundered for gain by terrorist groups like ISIL.

The means by which terrorist cells finance themselves include, and will continue to include actions like utilizing non-profit organizations (NPOs) as fronts for money-laundering. While we have seen some attempts at the national and international levels to try and define and outline a strategy to combat illicit finance threats, there is plenty of work ahead. We also must strive to address unintended impacts such as the harm to NPO's that need financial access if institutions simply call those entities high risk without any attempt to mitigate the risk.

We know it is in the heart of every AML/BSA/CTF professional to strive for better means to combat this growing threat, and it is our sincerest hope that the information found in this eBook will help provide some useful background to those combating this threat on a daily basis. And for those that may not see a direct correlation with the work they perform, please keep in mind that like many things in life, the many facets of the AML/BSA industry are interconnected in ways that may not be immediately recognizable.

Together, we can help put a stop to these illicit trends, and help build a better, and hopefully more honest financial world.

About the Author

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Mr. Byrne serves as Vice Chairman of AML RightSource.

He is an internationally known regulatory and legislative attorney with wide-ranging experience in banking and financial crimes. Mr. Byrne has particular expertise in all aspects of regulatory management, anti-money laundering (AML) issues and has served in leadership positions at trade associations, financial services industry groups, and government working groups. Mr. Byrne earned his undergraduate degree at Marquette University and his juris doctor at George Mason University School of Law.

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THE DARK TRIAD:
UNDERSTANDING THE GROWING
NEXUS OF ORGANIZED CRIME,
TERROR, AND FRAUD

The Dark Triad: Understanding the Growing Nexus of Organized Crime, Terror, and Fraud

While financial institutions are familiar with the concepts of transnational organized crime (TOC) and foreign terrorist organizations (FTO), many may not be fully aware of the expanding alliances between the two.

Organized crime and terrorism groups are increasingly relying on each other to create troubling, synergistic outcomes. While both groups differ in many aspects, the way they are funding themselves involve some of the same tactics and methods. The nexus between these two seemingly distinct groups, is adding the potential for money laundering.

What constitutes a TOC or FTO varies depending on who is defining them, but general definitions include:

- **Terrorism** is the unlawful use of violence and intimidation in the pursuit of political aims.
- **Organized crime** is serious crime planned, coordinated, and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain.

A growing threat

The catenation of these two formerly distinct entities is relatively new. “In the mid-1990s, they were decidedly distinct, linked in some ways, but separated in more important other ways,” according to research conducted by Alex P. Schmid, Research Fellow of the International Centre for Counter-Terrorism–

The Hague (ICCT).

Since then, the situation has evolved, taking advantage of trends, including globalization and the advent of the internet. Further, Schmid identified these four causes:

Recruiters in Western Diasporas increasingly fish in the same pool of ethnic youth gangs and petty criminals.

Convicted terrorists have successfully radicalized petty criminals and members of OCGs in prisons.

Smuggling and trafficking networks and jihadist networks in sub-Saharan Africa have assumed a hybrid character.

Government officials in criminalized states are involved in organized crime or supporting terrorism.

According to the U.S. Department of Justice, terrorists and insurgents are increasingly turning to TOC to generate funding and logistical support to carry out violent acts. While dated, the FY 2010 Consolidated Priority Organization Targets list reported that 29 of the 63 organizations, including the most significant international drug trafficking organizations (DTOs) threatening the U.S., were associated with terrorist groups.

Frequently cited terrorist organizations involved in criminal activity include: Abu Sayyaf Group (ASG), Al Qaeda's affiliates, D-Company, Kurdistan Worker's Party (PKK), Revolutionary Armed Forces of Colombia (FARC), Haqqani Network, and Hezbollah.

The U.S. government asserts that terrorism, insurgency, and crime interact in varied ways, including these common patterns:

- **Partnership motivations and disincentives:** Collaboration serves

as a multiplier for both criminal and terrorist groups, while seeking special skills and joint ventures.

- **Appropriation of tactics:** Criminals and terrorists have similar tactics to reach their separate operational objectives.
- **Organizational evolution and variation:** A criminal group may transform over time to adopt political goals and ideological motivations, while terrorist groups may shift toward criminality.

According to Schmid, another way to look at the similarities of the two entities is by “distinguishing between various levels of intensity in the interactions between organised crime and terrorist groups”. He identified the following four types/levels:

Type/level 1:	A weak nexus of ad hoc, opportunistic collaboration
Type/level 2:	A regular association, tactical, pragmatic collaboration, based on common interest constellation
Type/level 3:	An alliance formation, pact-based, strategic relationship involving a mutually advantageous symbiosis
Type/level 4:	A convergence whereby both sides merge in terms of personnel, resources, logistical and/or operational activities

The role of financial institutions

As with any illegal activity, a FIs' role in the fight against these TOC-FTO hybrid organizations is to detect, monitor, and report suspicious activity. To meet the high standard of due diligence placed on FIs, they must also be flexible enough to address evolving threats.

In fighting financial crimes committed by any combination of TOCs and

FTOs, FIs should be able to rely on their fundamental AML strategies that may include:

- Ensuring that rules are tuned and optimized on a regular basis (perhaps annually), incorporating new trends, and incorporating “transition” activities, thresholds, parameters, and methodologies.
- Create or enhance “red flag” awareness programs to include transitional activities.
- Establish “sound” KYC, CIP, CDD, and EDD programs.
- Provide updated training for FIU, SAR analysts, and BSA officers to be aware of groups that appear to have transitioned and report those suspicions.

What’s more, FIs can reinforce their efforts by verifying suspicious information, because TCOs and FTOs rely heavily on the use of fictitious information. KYC information provided to a FI during account opening should undergo due diligence after establishing an account, including individuals’ names, addresses, phone numbers, IP addresses, email addresses, websites, as well as the account activity. Due diligence is a critical step in identifying the use of front companies, shell companies, shelf companies, and firms that financially represent both foreign and domestic parties.

A black and white photograph of a person's silhouette wearing a hooded sweatshirt, standing against a background of dramatic, cloudy skies. A large, white, serif number '2' is centered over the person's torso.

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STOPPING THE LOOTING AND TRAFFICKING
OF CULTURAL ARTIFACTS AND ART

Stopping the Looting and Trafficking of Cultural Artifacts and Art

In February 2015, the [FATF pointed out](#):

“Reports on the smuggling of cultural artefacts by ISIL are limited, given that they are sold on the black market. ISIL’s ability to earn revenue from the illicit sale of antiquities is contingent upon the presence of antiquities within the territory where ISIL operates, knowledge of their existence, and ISIL’s ability to recognize materials as artefacts and develop some estimation of their value.

Although it might be impossible to show a direct link between the ISIL and the sale of a specific artefact, ISIL makes money in two ways from antiquities, both through selling looted artefacts and taxing traffickers moving items through ISIL-held territory. However, the total amount that ISIL is earning is difficult to estimate, particularly as the activity is taking place across Syria, in the midst of the conflict, not just in ISIL-held areas.

National Geographic reports that according to flash drives seized by Iraqi security forces, ISIL and other illicit groups operating in Syria could have earned as much as tens of millions of USD to date from antiquities stolen from Syria. ISIL also occupies more than 4 500 archaeological sites, some of them UNESCO World Heritage sites. According to the same report, 90 percent of the country’s cultural artefacts are located in war torn areas, which has allowed for large scale looting.”

That same year, the [FBI added a warning](#) with,

“The Bureau is asking U.S. art and antiquities market leaders to spread the word that preventing illegally obtained artifacts from reaching the market helps stem the transfer of funds to terrorists.”

As we move to the middle of 2019, it is important to note that we still are challenged with how to address the continuing thefts of art and cultural artifacts that are so important to society. The fact that these historical items and tremendous works of art are being co-opted to commit a wide range of crime, including terrorism, should be a call for the AML community to learn all we can about how to detect and report suspicious activity that could be an indicator of these illegal acts. We will leave to other experts on all of the myriad of ways these actions occur and will simply focus on a panel discussion held recently that gives us some initial direction on this complicated area.

An introduction to Art and Antiquity Theft for the AML Community

I had the honor of moderating a lively panel discussion at the ACAMS 24th Annual International AML and Financial Crime Conference in early April and this short session touched the nerves of many representatives from the private and public sector that attended. I know this because we have also created a [Task Force](#) on this challenge and we received many volunteers right after the program.

Experts ranged from the FBI, the US Attorney’s office from the Southern District of NY, the financial community and the internationally known [Antiquities Coalition](#). The perspectives were unique but the goals were the same—create and enhance global awareness.

We learned that art is vulnerable to a plethora of financial crimes such as insurance fraud, tax evasion, money laundering, and of course terrorist financing. Some portions of the art market are training on detection of illegal activity but much more needs to occur, including changing the US Bank Secrecy Act to add regulatory obligations to art dealers. Law enforcement added that collaboration with foreign partners and the private sector are key and they offered several potential warning signs, including:

- Use of third-party entities/shell companies
- Online auction houses: secondary sellers, linked entities
- Vague or intentionally misleading provenance information

A basic but useful additional piece of advice was not to assume (if you are filing a suspicious activity report [SAR]) that law enforcement is already aware of a particular scheme.

An extremely riveting part of the panel conversation came from Citigroup that has a very proactive unit dedicated to investigating these issues.

Note: Understand that no financial institution is required to have training on art and antiquity theft but they do file SARS when appropriate.

The ability to investigate is predicated on understanding why art is conducive to financial crime. We learned that the high value, strong demand, and relative anonymity are key as is the ability of art galleries to commingle illegitimate activity with legal sales. Several case studies were discussed and emphasized art being sold through counterparties with issues identified from negative news. The common thread on how to manage all of these potential risks is training and increased awareness of the first and second lines of

defense at the financial institution. The awareness should not end there but the institutions can reach out to their art customers (especially the small and medium size art markets) and offer direction and practical guidelines.

The panel offered a number of takeaways including ask the question, are the volumes consistent with the art market/auction sales?

Conclusion and Next Steps

Our session is just the beginning of a series of steps to both educate and learn from the art community on how there can be a partnership on stopping the flow of illicit funds from the movement of cultural artifacts that enable terrorism and other financial crimes. Regulation alone won't solve the problem. We need a commitment from all stakeholders.

Here's to open dialogue on transparency, awareness and sincere partnership.



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EXPLORING STRATEGIES FOR
COMBATING TERRORIST AND
OTHER ILLICIT FINANCING

Exploring Strategies for Combating Terrorist and Other Illicit Financing

Let's review a recent posting of the Treasury Department's "[National Strategy for Combating Terrorist and Other Illicit Financing](#)." The report is actually four separate documents and I urge everyone to read all four—mainly because several are clearly more balanced in my view than others.

The overall "Strategy" is a congressionally-mandated report and is comprised of three separate risk assessments, including "updated guidance to aid financial institutions in detecting and combating illicit finance threats." One glaring omission in all of the reports —no real consultation with the private sector partners of law enforcement that constantly strive to battle the scourge of money laundering and all aspects of financial crime.

My other main complaint is that the [money laundering risk assessment \(NMLRA\)](#) has a vastly different tone than the others.

For example, in the overall strategy, the following statement is both correct and resonates throughout our community:

“Illicit transactions are often hard to distinguish from legitimate day-to-day transactional activity.”

How come this challenge is generally missing from the money laundering strategy?

It should come as no surprise that without consulting the private sector,

the money laundering risk assessment simply concludes that “[t]he most significant money laundering risks in the United States include misuse of cash, complicit individuals and financial services employees, and **lax compliance at financial institutions.**”

Interestingly, no one else appears to be at blame, or no recognition that there are many resources dedicated to money laundering detection and reporting by these same financial institutions. This is not to absolve financial institutions that have been fined and penalized, but ignoring the proactive moves by the industry in responding to human trafficking, elder abuse and other financial crime is not helpful to the goal of private-public partnership.

The other aspects of the NMLRA reiterates much of what we have seen in the 2015 strategy on trade-based money laundering, use of virtual currency, the problem in the real estate industry and other well-known risks. The line that made me wince was:

“State and federal supervisors strive to identify and resolve AML/CFT compliance deficiencies early and privately recommend improvements and remedial actions to prevent lapses from becoming more serious and requiring a public enforcement action, or an eventual Department of Justice criminal referral.”

Seriously? My sources in the industry would suggest that examiners make decisions on compliance and you ignore their “recommendations” at your regulatory peril. I would suggest that no real change in the AML infrastructure can ever occur without an acknowledgement that regulatory oversight needs to be on the table for real change to occur.

Fair and Balanced?

The [terrorist financing risk assessment](#) appears to be written by different

authors, but there is still some confusing language. The report does correctly acknowledge that financial institutions that have robust AML programs force terrorists to utilize cash and other risky methods of moving funds. It also attempts to be fair on covering the continuing challenge of banking charitable organizations. The Treasury should be applauded for saying that:

“the U.S. government does not view the charitable sector as a whole as presenting a uniform or unacceptably high risk of being used or exploited for money laundering, terrorist financing, or sanctions violations.”

However, it then adds that “[t]he TF risk for charitable organizations in the United States can vary dramatically depending on the operations, activities, leadership and affiliations of the charitable organization.”

So, what do you do? Readers of these postings know of the ACAMS-World Bank efforts to address the de-risking of NPO's, and we welcome government statements that not all are high risk. However this report, while attempting clarity, continues to confuse (at least me).

Don't accept my take on these reports and again read all four documents.

Here is the overall part of the strategy that we can support— “exploring ways to modernizing the regulatory regime in ways that support efforts by financial institutions to devote their resources toward addressing the areas of highest risk for illicit finance activities.”

The private sector is essential to AML/CFT/Sanctions improvement and regulatory oversight needs modification...

National Strategy for Combating Terrorist and Other Illicit Financing



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ADDITIONAL RESOURCES

Additional Resources

An interview with Dr. Louise Shelley AML

Conversations: The challenge of addressing the illicit economy in 2019 and beyond—the need for research and data

In this edition of AML Conversations, AML RightSource Vice Chairman, John Byrne, sits down with Dr. Louise Shelley, Director of George Mason University's [Terrorism, Transnational Crime and Corruption Center](#). In their conversation they discuss the center, her recent book "[Dark Commerce](#)", and the connection that the center has been able to amplify in its research in understanding the links between terrorism, transnational crime and corruption.

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