



## Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

**Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.**

### PROXIMAL CONSULTING WHITE PAPER 21 WHY THE TERRORIST FINANCING MODEL IS INADEQUATE

Before we consider the difference between terrorist fund raising and the financing of operational cells it is also relevant (and frightening) to consider the realities of mounting a terrorist attack. Let us create an imaginary individual who lives in Europe. He is a legitimate citizen of the country in which he lives but for a variety of reasons becomes profoundly disenchanted with the decadence of his native land. However he has a job that pays him a regular salary – thus his entire source of funds is legitimate and would not raise any red flags with the financial institution that he uses.

Our imaginary individual falls in with a group of like-minded people who have the same backgrounds and strongly held views. Spurred on by events elsewhere in the world and deeply affected by them this group plans a terrorist outrage. Whilst they follow and support the ideologies of a radical international terrorist group, they have no contact whatsoever with its leaders: they are merely devoted followers of the cause who passionately believe that they can make a difference. Through the Internet they obtain detailed instructions of how they can manufacture explosive devices from what are essentially household materials (or if specialist items are required they quickly find out where they can be obtained legitimately or through theft). One of the group has a scientific background and thus the actual bomb making does not prove to be that difficult. And then one day, at a prearranged time and location, this small group gathers together and begins its killing spree.

Of course, such a set of actions is wholly unacceptable in a civilised world, but the key issue in this context is what terrorist financing is involved in such a scenario and what could have been done to identify it before any atrocity took place? The shocking answer is that unless the individuals or group had done something else to bring them to the attention of law enforcement authorities and/or intelligence agencies, there will have been nothing whatsoever to highlight any red flags of terrorist funding activity. Each member of our imaginary group had a real job or rightfully claimed state benefits. They were citizens of the country in which they lived and – on the surface at least – law abiding. They received no large wire transfers from outside the country; they used their accounts for normal living expenses. The bomb making equipment that they acquired was either stolen or paid for in cash. Their names were on no official or unofficial terrorist warning lists. They may well have left "financial footprints" which will be of importance in investigations after their attack, but only in the sense of tracing where the footprints came from as opposed to following the footprints as they were being made and stopping them in their tracks.

The 9/11 Commission Report in its 'Monograph on Terrorist Financing' spells out the problem:

*"for terrorist financial transactions, the amount of money is often small or consistent with the customer's profile...and the transactions seem innocuous. As a consequence, banks generally are unable to separate suspicious from legitimate transactions."*

The monograph continues to spell out the intense difficulties with trying to identify a financial profile of terrorist operatives, so that they could be identified prior to an attack:

*"the New York Clearinghouse, a private consortium of the largest money-center banks, attempted to put together such a profile in partnership with government investigators. After two years, they concluded it could not be done."*

### MISSED OPPORTUNITIES OR TOO LITTLE, TOO LATE

One ironic counterpoint to this topic is that, just before I wrote these words, I was interviewed by BBC radio concerning a new EU initiative which was described as an "attempt to disrupt the financing of terrorist activity". The requirements which the European Commission hope will come into force in January 2007 are that banks in the EU will be required to register the name, address and bank account of anyone making an international money transfer. The aim of the proposal is to stop anonymous flows of money into Europe and thus bank and wire transfer companies receiving money from outside the EU will only be able to accept money if it is accompanied by the name, address and account number of the sender. If these details are not provided the transfer would be rejected; the details of these transfers would have to be recorded, suspicions will have to be reported and the records will be made available to relevant authorities if they are investigating money laundering and terrorist funding. Ceu Pereira, a commission official was quoted as saying that "the aim is to cut off the funding for terrorism and make the environment increasingly harsh for them. Money is the nerve of war, and at present there are few possibilities to trace funding sources".

Before explaining why this is a woeful initiative it is important to say that any mechanism which provides details of possible or actual terrorist financial streams to law enforcement authorities who are investigating terrorist atrocities which have taken place

or may take place should be encouraged. But wait a minute: this was a response to the London bombings on 7 July 2005 – and it is hoped that it will be in place by January 2007! Does nobody think that terrorists can read newspapers or use the Internet? Is it not highly likely (or a certainty) that in the eighteen months before this initiative is put into place they will work out how to get round it? Without going into full details they could use dummy companies or professional advisors to transfer funds; they could give up on the banking system altogether and simply move physical cash – or they could (and do) use anonymous money transfer systems on the Internet. Or they could merely do what they are already doing – as 9/11 showed – open an account in a country outside the EU/US and use a plastic card from that account in the EU/US. More importantly why in 2005 (four years after the horrors of 9/11) are there still "few possibilities to trace (terrorist) funding sources"?

## **FOLLOW THE MONEY – USUALLY CASH**

Although it is my contention that Al-Qaeda in particular have exploited the opportunities and facilities offered by technology, and specifically the Internet there is also intelligence which confirms that they also utilise the most simple of methods to move money around. In August 2005 Aljazeera reported that Osama Bin Laden bankrolled the bombing of the Australian embassy in Jakarta on 9 September 2004. Quoting Australian media reports covering Indonesian police interviews with the alleged plot leader Rois AKA Iwan Dharmawan, he is stated as claiming that Bin Laden sent \$7,558 to the bomb maker to pay for the attack. And how did Bin Laden achieve this transfer? In cash using a courier who hand delivered it to Azahari Bin Husin, the Malaysian bomb maker. With a tragic irony the dangers associated with this money transfer method had been highlighted two months before the Jakarta attack by Claes Norgen, the president of the FATF, at a press conference in July 2004 when he observed that "what we signal today is that in the area of what is called cash couriers – the fiscal transport of money – there needs to be more work done. This is a problem that has grown in importance, and we must respond to that". The United Nations Analytical Support and Sanctions Monitoring team concerning Al-Qaeda and the Taliban came to the same conclusion in their second report in December 2004: "There is little doubt that Al-Qaeda makes use of cash couriers for the purposes of financing its activities and supporting its operatives. Enhanced scrutiny by authorities of regulated financial systems and the lax controls at many borders continue to make the physical movement of cash and other forms of value attractive to terrorists as well as other criminals". In other words, if the world's anti-terrorist radar is focused on the banking system, Terror Finance Inc. will adopt any tactic or channel it can to move money around – from the simplest (bags of cash) to the most sophisticated or least transparent, which may be the same thing.

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