



Fact Sheet: **Terrorist Financing**

Author: Tamsin Lilley

Published: July 2017

www.proximalconsulting.com

What is Terrorist Financing?

Terrorist financing is the processing of funds from any source (including legitimate ones) to finance terrorist activities or those who encourage, plan or engage in terrorism.

Conversely, money laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of criminal activities. If successful, the money can lose its criminal identity and appear legitimate.

How Does Terrorist Financing Differ From Money Laundering?

- Terrorist financing is often seen as money laundering in reverse: in most cases, the cash is "clean" or derived from legitimate sources (such as student loans or registered charities used as a front) and then used for criminal purposes
- Terrorist financing is much more difficult to detect as funds used often come from legitimate sources
- The amounts required to finance a terrorist attack are usually relatively small (note: this is not always the case)

What Are Some Of The Similarities Between Terrorist Financing And Money Laundering?

- Disguise: in Terrorist Financing, the use and destination of the funds are concealed, in the same way that the source of funds (the proceeds of crime) in money laundering is concealed
- The increased use of emerging technologies
- In some cases, cash is used rather than the financial system

Difficulty in Detecting

One of the major challenges facing financial institutions is the detection and identification of potential terrorist financing. Much of the funding for terrorist acts is derived from legitimate sources so financial institutions need to be alert to possible future criminal activity. In addition, the transaction amounts used to finance terrorist atrocities often fall below reporting standards.

The following statement in the US 9/11 Commission Report is still as relevant today as it was back in 2004:

While the 9/11 hijackers were not experts on the use of the US financial system, nothing they did would have led the banks to suspect criminal behaviour, let alone a terrorist plot to commit mass murder...no financial institution filed a Suspicious Activity Report with respect to any of the transactions of any of the 19 hijackers before 9/11. Nor should SARs have been filed.



Estimated Costs and Funding Sources

As previously stated, the costs used to fund terror attacks are minimal. Here are some examples of the levels of funds used to carry out terrorist attacks:

Terrorist Attack	Estimated cost
London transport system (2005)	GBP 8 000
Madrid train bombings (2004)	USD 10 000
Istanbul truck bomb attacks (2003)	USD 40 000
Jakarta Hotel bombing (2003)	USD 30 000
Bali bombings (2002)	USD 50 000
USS Cole attack (2000)	USD 10 000
East Africa embassy bombings (1998)	USD 50 000

Some of the methods used to finance terrorism include:

- Misuse of loans (see our blog entry on the use of student loans to fund terrorism)
- Using registered charities as a front for gathering funds for terrorist activity
- Drug trafficking
- Credit card fraud
- Extortion
- Multiple types of criminal activity combined – for example, cigarette smuggling, credit card fraud, insurance fraud

What Can Our Clients Do?

The Financial Action Task Force (FATF) has highlighted the part that the banking sector can play in stopping the financing of terrorism:

The private sector, such as banks, have an important role to play in stopping terrorist financing. It is through them, that terrorists could attempt to gain access to the global financial system. Banks' understanding of terrorist financing, their vigilance, and their ability to take the necessary action and alert the national authorities, is essential

In particular, here are a few things that our clients can do:

- Conduct enhanced due diligence (EDD) on onboarding of clients and on an continuous basis (see later for how we can help with this)
- Screen customers against available sanction lists in the relevant jurisdictions
- Adopt a risk based approach for monitoring and detecting unusual activity



- Formulate and implement anti money laundering and anti terrorist financing policy
- Recognise that methods used by potential terrorists constantly evolve to circumvent financial safeguards
- Be aware of the risks posed by the use of correspondent banking relationships. These are said to have been used in the funding the 9/11 terrorist attacks. Correspondent banks will generally rely on the customer due diligence (CDD) carried out by the counterpart bank
- Report suspicious activity to the relevant authorities: this duty relates to every employee within the financial sector
- Recognise that EDD should be carried out on existing clients, as well as potential new clients

How We Can Help

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfill their AML obligations.

Proximal Consulting's tailor-made enhanced due diligence reports seek to confirm the following information:

- Confirmation of identity
- Current and/or previous residential addresses
- Past and/or present passports issued to the subject of the report Information regarding the subject's family members and civil status
- The subject's career history and professional background, including corporate positions and shareholdings
- Any real estate and vehicles owned by the subject
- Any negative or detrimental material regarding the subject and the subject's business interests
- Whether the subject should be viewed as a PEP (politically exposed person) and/or a close family member or associate of a PEP
- Any links between the subject and organised crime, money laundering, corruption, business crime and/or any other type of criminal activity
- Sanctions risks

A Proximal Consulting enhanced due diligence report will confirm whether a prospective or existing customer or partner is providing you with complete and accurate information.

We can also help with ongoing KYC enhanced due diligence monitoring throughout your business relationship with the customer, as part of a risk based approach. We can provide regular, updated intelligence reports to ensure that the activities of these individuals are commensurate and consistent with your knowledge of the individual and their business profile.



Need Further Information?

If you would like further information about how Proximal Consulting can help you with any of the above topics, please contact us.

In addition, please see our AML training section for information on how Proximal Consulting can help you by providing a high quality, cost effective bespoke solution for your AML training and enhanced due diligence needs.

Fact sheet published in July 2017 & downloaded from www.proximalconsulting.com

© Proximal Consulting – no part of this Fact Sheet may be reused without written permission



Proximal Consulting

Email: enq@proximalconsulting.com

Telephone: +44 (0) 1672 516725

Offices:

Poughcombe Barns
Ogbourne St Andrew
Wiltshire
SN8 1SE
UK

Rue Du Rhone 14
1204-Genève
Switzerland