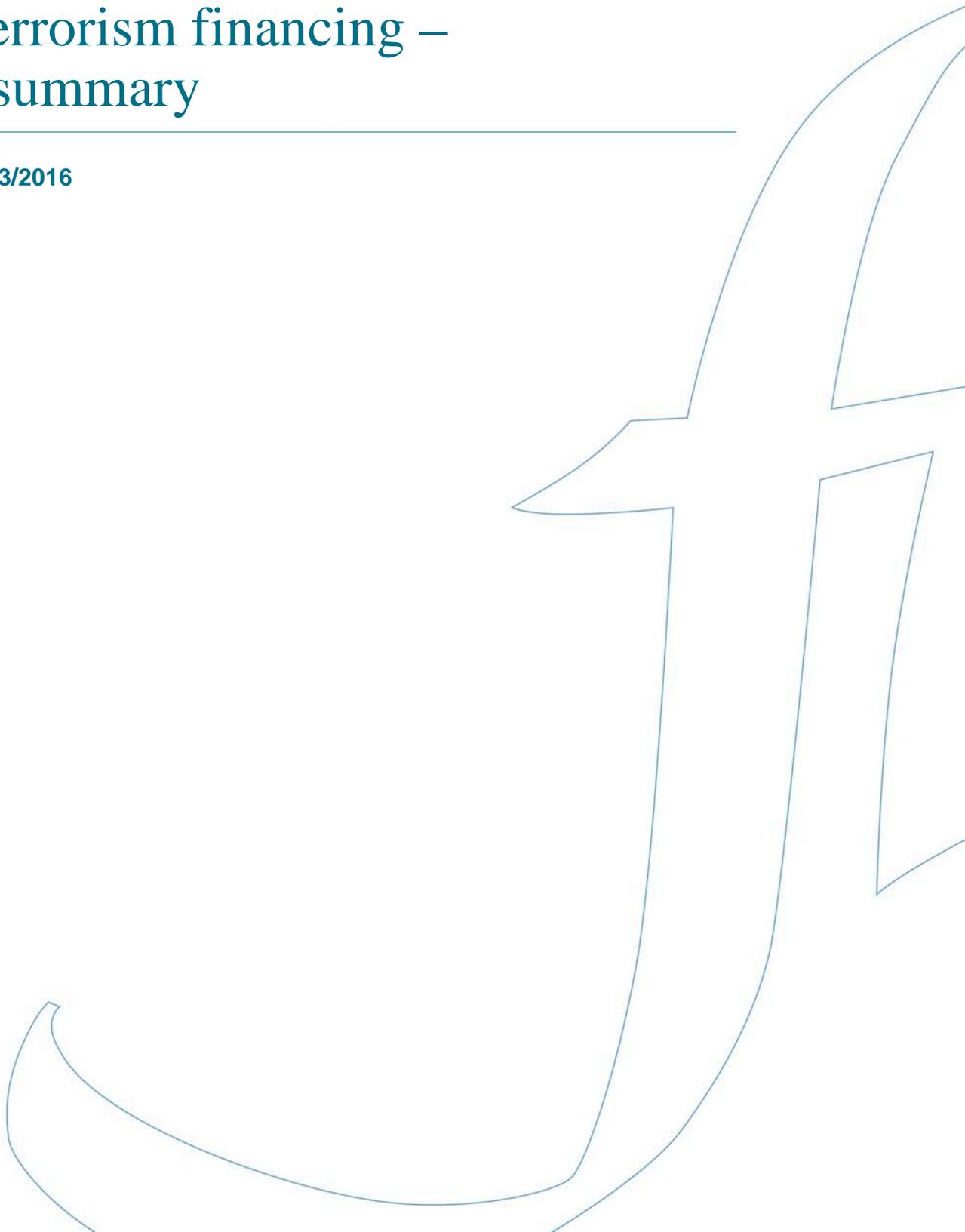




FINANSINSPEKTIONEN

Terrorism financing – a summary

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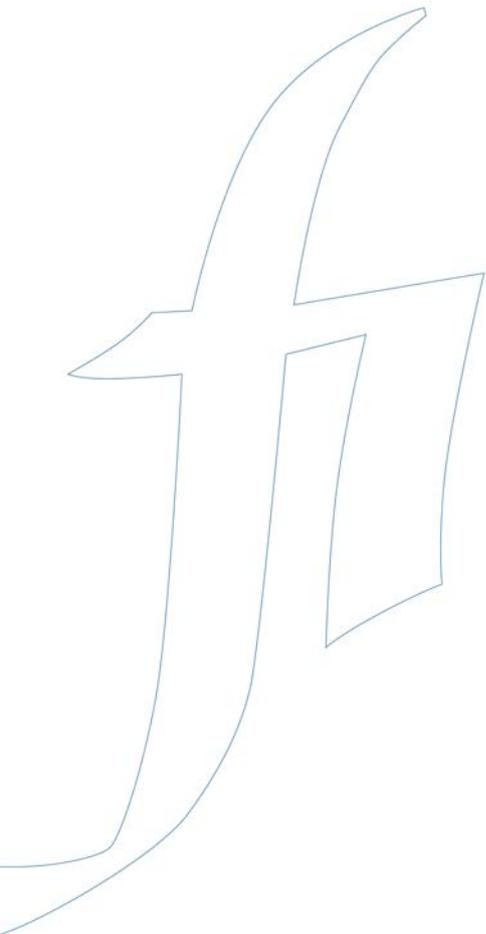


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Summary

The fight against terrorism has taken on a new urgency in the wake of the tragic events in Paris on 13 November 2015 when a number of attacks were launched by people with ties to the Islamic State (IS). Since then, political initiatives have been taken to step up the fight against terrorism financing.

Evidence shows that it is possible to carry out terrorist attacks even with limited access to financial means. However, the methods used to generate funds for terrorist attacks also leave behind footprints, and anti-crime authorities and intelligence organisations are able to follow these footprints. It has therefore become increasingly important for countries around the world to build up their ability to prevent, detect and respond to financial activities that aim to support terrorism.

This report is the result of a study that the Center for Asymmetric Threat Studies (CATS) at the Swedish Defence University conducted during 2015. The study was commissioned by Finansinspektionen (FI).

Finansinspektionen's objective for this report is make the market more knowledgeable about how terrorism is financed. This knowledge will help both Finansinspektionen and the companies on the financial market carry out their respective assignments.

Better understanding of terrorism financing

The first purpose of this study is to contribute to a better understanding of terrorist financing and the methods used to generate and move funds to terrorist organisations. The second is to describe how the UK and Canada are working to prevent terrorism financing.

STUDY OF TERRORIST CELLS

A Norwegian study that analysed 40 terrorist cells between 1993 and 2013 drew a number of conclusions about terrorist financing methods. Firstly, salaries and savings of terrorist members were the most common source of income. At least 73% of the terrorist cells had acquired part of their financing from legitimate means, while illegal activities represented 38% of the financing. At least 47% of the terrorist networks were entirely self-financed and 90% of the cases were partly self-financed. Most attacks carried out by terrorist cells cost less than USD 10,000. The small amounts that are required to carry out an act of terrorism make detection difficult.

HOW FUNDS ARE GENERATED TO SUPPORT TERRORIST GROUPS

Charitable contributions are an integral part of the Muslim faith and a way to show solidarity with other Muslims. Sometimes the charity sector is abused by terrorists in order to raise funds from the organisations. The complexity of the crisis in Syria and the huge need for humanitarian assistance makes the issue of charity and terrorist financing extremely difficult and sensitive. There are several international examples of situations where charity organisations have been used to finance terrorist organisations.

In Sweden, one of the ways terrorism has been financed has been through loans, which primarily are raised by people who are travelling to other countries to join terrorist organisations. Student loans, quick (unsecured) loans and business loans are examples of the types of loans that have been abused for this purpose, and there is no intention to pay back these loans back.

VAT fraud is also a lucrative method to finance terrorism. This type of fraud can generate very large sums, particularly in consumer goods that are easily resold. These schemes often involve designated ‘fall-guys’ who take the legal and financial consequences when the fraud is detected.

Social insurance fraud and frauds related to car leasing and counterfeit goods are also used to finance terrorism.

METHODS TO TRANSFER FUNDS

IS uses banking services in Syria and Iraq as well as in neighbouring areas. According to one report, there are approximately 90 international banks that continue to operate in areas that are contested by IS. However, one of IS's most important access points to the international financial system is the border region between Turkey and Syria.

Business that offer money remittance services and currency exchange have been exploited with the aim of financing terrorism. One method that has been well known for some time is sequencing, which entails breaking down one transaction into several smaller transactions to stay below thresholds that would require mandatory reporting of suspicious transactions. Along the border between Turkey and Syria, the use of money service businesses is widespread to receive funds coming from Europe. Regular withdrawals of smaller amounts along the border are common.

Hawala (an informal money transfer system) is an established practice in many regions throughout the world and it used to some extent for transactions intended to finance terrorism. There are also couriers who physically move cash across borders, for example by people who are travelling to conflict areas to join terrorist organisations.

Crowdfunding in social media is another method mentioned in the report. Charitable organisations have been established with the aim of receiving donations. Social media and mobile apps are used to provide detailed instructions about how funds can be transferred in the most secure manner.

TERROR-RELATED TRAVEL

Around 5,000 people from the EU have joined IS and other terrorist organisations in Syria and Iraq since the onset of the Syrian civil war. Just under 300 of these have come from Sweden, of which at least 45 are women.

There are several different signs that a person may be about to embark on terror-related travel. For example, the person may suddenly sell assets, quit his/her job or make large withdrawals from his/her accounts. One red flag could be unusually high account activity in combination with many different types of loans (often small, unsecured loans) and account withdrawals. Credit is maximised, large purchases are made and goods are ordered without any intention to pay. When the invoices arrive, the person has already left the country. When several of these indicators occur at the same time or within a short period of time, this should be seen as a red flag that something could be about to happen.

National models for fighting terrorism

The second part of the report evaluates the national models for counteracting terrorism financing in the UK and Canada. These two countries have been selected because of their active and long-term efforts on both the national and international stage. A national model to counteract terrorism financing is dependent on the sharing of relevant financial information between the different participants in the model. Financial information can be used for intelligence organisations, anti-crime authorities and supervisory authorities, for example, to reconstruct how a crime occurred. This is important, in particular for understanding and preventing future plans for similar crimes.

CANADA

The Canadian Minister of Finance has been assigned the lead responsibility for the national model to counteract terrorism financing. The Canadian administration consists of 11 ministries and authorities. These authorities receive annual appropriations of CAD 70 million. Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is responsible for serving as a central repository for financial information, analysing the information and facilitating dissemination of the results. FINTRAC is an independent authority under the Ministry of Finance and acts as an intermediary between the financial sector and law-enforcing authorities.

FINTRAC receives approximately 20 million transaction reports a year, of which around 90,000 are suspicious transaction reports. The rest are different types of mandatory reporting in conjunction with the breach of transaction thresholds. There is a very powerful system in place to analyse the large number of reports.

The criticism that has been directed to the Canadian efforts to counteract terrorism financing has focused on inefficiencies and the risk of over-reporting, which could violate individuals' right to privacy.

UNITED KINGDOM

The Home Office and the Office for Security and Counter-Terrorism are responsible for the policy work in this area in the UK. The national Financial Investigation Unit (FIU) is placed with the National Crime Agency. FIU is responsible in part for receiving suspicious activity reports, and it has a special group that works with the reports that are suspected to have links to terrorism financing. The number of suspicious activity reports has increased since 2013, largely due to the general increase in reports from the financial sector. There are more than 350,000 suspicious activity reports submitted every year. The UK, like Canada, has an effective tool and system for properly receiving and analysing reports.

The group at FIU that has specialised in terrorism financing is also responsible for analysing the suspicious activity reports and other finan-

cial information to identify typologies that show how terrorism is financed in practice. These examples are communicated to the financial sector to increase awareness and knowledge and initiate discussions about different methods. Information sharing and partnership between government agencies and the financial sector have been identified as a key factor of success. Several initiatives have been introduced to improve the relationships and trust between responsible authorities and actors in the financial sector.



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