



Threat Finance: A Natural Evolution from CFT/AML?

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Seven years since al-Qaida's iconic attacks on American landmarks in New York and Washington DC, the international financial community continues to struggle with its role to effectively combat the financing of terrorism (CFT). Unlike the relative novelty of CFT, anti-money laundering regimes have been in place since the early 1970s, when a booming, transnational narcotics trade provided the impetus for new laws and regulation. Nearly four decades of regulatory action and response have helped form an evolved process for banks to deal with money-laundering and its myriad predicate crimes. While regulatory action for CFT predates 9/11, its advent as a fundamental part of banking compliance following those attacks is relatively new and predictably underdeveloped.

With greater political complexity than ordinary financial crime and a lesser amount of time for institutional learning to take place, it is understandable that CFT suffers from some conceptual ambiguity. Much of this stems from the transnational dimension of terrorist financing issues: contested definitions of the term "terrorism"; varied levels of legislation; enforcement and regulatory guidance that differ across jurisdictions, and the misapplication of AML tools for CFT.

This conceptual confusion leads to non-risk-based compliance solutions that encourage mere "tick-the-box" approaches that are hardly useful for mitigating legal, regulatory and reputation risk in any meaningful way. One result is a perception within a misguided but well-meaning minority that CFT measures are not worthwhile, which more often than not leads to wholesale discounting of quality risk-based strategies and tools.

Much as behavior reflects thought, it is not the CFT mission that is misguided per se; rather, many of the flawed preconceptions that underpin CFT programming (i.e., just checking the lists is good enough) are not reality-based and lead to unsatisfactory outcomes.

Potentially effective weapons to battle looming threats are cast aside for one-dimensional approaches that may or may not enable an institution to remain compliant in the short-term, but that certainly do very little for mitigating risk in any meaningful way in the medium to long-term. "Tick-the-box" approaches do little for contributing to a collectively hostile environment for terrorists and their financiers.

The mistaken thought that complying with the OFAC list is sufficient CFT is but one example of this approach. When was the last time Osama bin Laden or another designated terrorist from a sanctions list walked into a high-street bank and tried to open an account?

Irrespective of some of the challenges faced in the financial services and banking sectors, there has been traction in military and intelligence circles to broaden the scope of CFT and AML monitoring within a holistic risk-based framework to account more fully for illicit financial streams and the networks that generate them. These illicit financial streams are part and parcel of the shadow economies of gray and black market goods that constitute the dark side of globalization.

These include weapons of mass destruction proliferation, transnational organized crime networks, and terrorist and insurgent financing. One commonality is that all these illicit activities involve networked forms of organization – driven by the Internet and globalization. Where in the past, the threats groupings were more hierarchical in nature (think Al Capone, Charles Taylor, Abimael Guzman), the rapidly evolving threats that will increasingly impact states, societies and the world economy are decentralized and fluid. Or, in a word, viral. Therefore static approaches will not work.

As the threat landscape develops, so too must our understanding and assessment of current ground realities. Country and jurisdictional risk assessments lie at the heart of engineering a successful compliance program, and the applied concept of threat finance appears to mark a natural shift from CFT and AML into an evolved compliance framework for the 21st century.