

Integration of Financial Investigation into Counter Terrorism Strategy

Arabinda Acharya and Gunawan Husin*

The 10 August 2006 foiled bombing plot in the UK once again reinforces the importance of financial investigation as an integral part of overall counter-terrorism strategy. Rashid Rauf, the British national whose arrest in Pakistan triggered the operation, was under surveillance, along with two others, for more than six months, following a tip-off from the UK National Terrorist Financial Investigation Unit about massive money transfers from a British-based Islamic charity. The money was being transferred into the accounts held by the three suspects as ‘earthquake relief.’ The subsequent arrest of 24 terrorist operatives in the UK and the avoidance of another potential mass casualty attack since September 11 was largely facilitated by the intelligence obtained through financial investigations.

Despite stringent security measures, terrorist groups continue to be able to recruit, indoctrinate and train operatives in order to carry out deadly attacks. Inevitably, to sustain their operations, the groups need to maintain the robustness of their financial network by exploiting methods to raise, store, and move money, which could then be used for final acts of terror. The manner in which the terrorist groups have managed to adapt to the controls is the dynamic that has made modern terrorism so threatening and destructive.

Traditionally, financial investigation has been reactive and only took place as part of post-attack investigations. The measures contemplated did not seek to pre-empt new developments in terrorist financing and other criminal money transactions. However, given the complexities involved, it has now become imperative to integrate financial investigation into the overall counter-terrorism strategies in the national, regional as well as global context. Various stake-holders in the CFT (Countering the Financing of Terrorism) community such as the financial sector,

financial regulators, and law enforcement agencies now need to be more proactive in developing capability and financial intelligence useful in tracing terrorist financial trails not only in post-attack investigations, but also during the planning and preparation stage, so as to be able to prevent attacks, as demonstrated by the foiled plot in the UK.

Key issues within the CFT community

There are two key issues evident within the CFT community that impair the effectiveness of overall strategy to interdict terrorist financing. The first is the absence of dynamic communication and feedback within the CFT community. Often the financial sector perceives itself to be the only agency that has to bear the burden of choking off terrorist financing, while confronting issues such as reputational and operational risks, due to the lack of feedback from law enforcement agencies.

The second is the quality of suspicious transaction or activity reports made to respective Financial Intelligence Units (FIUs). Given the stringent regulatory requirements across most jurisdictions and hefty financial penalties for compliance violations such as in the US, the industry spends billions of dollars as cost for software systems and for hiring and training staff to ensure regulatory compliance. This has led institutions to submit ‘defensive’ suspicious transaction or activity reports, rather than ‘intelligence-led’ reports.

In many countries, different agencies sit in different state of awareness on the importance of CFT. The financial sector in general is willing to fight terrorist financing but is not very sure about what to do. It is worthwhile to mention that the financial sector could be the ‘eyes’ and the ‘ears’ of the community and the ‘first-line defence’ against terrorism. For example, the KYC (Know Your Customer) policy employed by the banks has the potential to provide good indicators in identifying terrorists and other financial criminals. It is therefore essential to

develop financial intelligence skills within the financial sector and to increase cooperation and information sharing within the broader CFT community.

Importance of financial investigation

The financial investigation following 7 July 2005 London bombings reinforced its critical role in overall counter-terrorism investigations. The recovery of a credit card fragment belonging to one of the suicide bombers provided important lead to the financial profile of the terrorist, his links to other members, financial transactions, patterns of purchases, safe house and other unknown elements of the entire operation. Similarly, US treasury department was able to identify terrorist affiliated charities and other terrorist financiers that provided support to Al Qaeda, through the use of SWIFT data.

CFT is the art of understanding various methods used by terrorist groups in raising, storing, and moving and using terror funds. As finance is an integral element in the overall activity cycle of a terrorist group - its lifeblood - it is imperative that financial investigation must be embedded in all counter terrorism efforts. Within the CFT community, financial sector and law enforcement agencies have the knowledge or information that could lead to useful pieces of intelligence. At the same time, the regulatory and law enforcement agencies have the capability to provide the policies and the tools necessary to build that intelligence. This partnership within a robust CFT regime is critical for the success in the fight against terrorist financing and terrorism.

From a counter-terrorism perspective, financial investigations also provide opportunities to disrupt terrorist organizations, along with other pieces of intelligence such as phone and email records. Information contained in financial records provides rich insights into financial 'footprints' of suspects, such as the spending patterns, financial transactions with other actors, training expenses and other operational expenses. As a former New Scotland Yard financial investigator

puts it, financial investigation is like a river, it leads upstream to donors and downstream to operational cells. Financial intelligence could not only expose emerging methods used to finance terrorism, but also demonstrate how different terrorist cells interact, thereby enabling the security agencies to disrupt attacks. It is in this context that the necessity for integration of financial investigation into national and regional counter-terrorism strategies can hardly be over-emphasised and there is a strong need for the governments to formalise such strategies in building robust CFT regime.

Singapore initiative: A way forward

On 4 August 2006, the Monetary Authority of Singapore released its AML/CFT (anti-money laundering / countering the financing of terrorism) consultation paper, aimed at establishing a more stringent AML/CFT regime and creating more hostile environment for financial criminals. This introduction is timely and presents a good opportunity to reinforce the important role the financial sector can play to combat financial crime along with other members of the CFT community. It also provides the basis to inform relevant government agencies about the need to integrate financial investigation into the national counter-terrorism strategy. For instance, the proactive cooperation between public and private sector can be made possible by appointing sanitised banking staff working closely with the FIUs and the national counter-terrorism agency to develop intelligence and best practices.

The successful implementation of this recommendation would result in refinement of transaction monitoring capability, make suspicious transactions or activities report more intelligence-led, provide justification for commitment of resources for respective agencies and most importantly would enable relevant agencies disrupt financial networks of terrorist organisations so as to reduce overall terrorist threats.

In conclusion, countering the financing of terrorism is a multi-dimensional challenge. The CFT community must continuously be geared to develop capacity, to

heighten awareness, to share knowledge, and to seek active cooperation among key stakeholders within the community itself. By working closely with various CFT stakeholders, it would be possible to develop better indicators to detect terrorist funds, synergise core expertise in respective agencies through training, and identify global best practices in AML/CFT issues, in order to make them applicable at the domestic and regional level with least resistance at minimum resource commitments. Ultimately, with a robust AML/CFT regime, integrated with the overall counter-terrorism strategies, it would be possible not only to create a hostile environment, which would make it extremely difficult for the terrorist groups to make and move money, and to identify perpetrators of a terrorist attack, but also to prevent future attacks.

* Arabinda Acharya is a Visiting Associate and Manager Strategic Projects and Gunawan Husin is an ABS (Association of Banks in Singapore) Fellow at the International Centre for Political Violence and Terrorism Research, Institute of Defence and Strategic Studies, Singapore.