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Integration of Financial Investigation into Counter-Terrorism Strategy

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The 10 August 2006 foiled bombing plot in the UK once again reinforces the importance of financial investigation as an integral part of 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.

Traditionally, investigations into the financial networks of terrorists have been reactive and only take place as part of post-attack investigations. The measures 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.

The 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 an 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, the 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, 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 investigations must be embedded in all counter-terrorism efforts. Within the CFT community, the financial sector has the knowledge and 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 a successful fight against terrorist financing and terrorism.

From a counter-terrorism perspective, financial investigations also provide opportunities to disrupt terrorist organizations. Information contained in financial records provide rich insight into the financial ‘footprint’ of suspects such as spending patterns, financial transactions with other actors and training expenses. As a former New Scotland Yard financial investigator has put it, financial investigation is like a river, it leads upstream to donors and downstream to operational cells. It is in this context that the necessity for the integration of financial investigation into national and regional counter-terrorism strategies is obvious, along with the need for governments to formalise such strategies in building a robust CFT regime.

Key issues impairing the effectiveness of the CFT community

There is little doubt that financial investigations play a major role in thwarting terrorist actions. However, to better the effectiveness of the CFT community, two important issues need to be resolved.

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 also confronting issues such as reputational and operational risks due to the lack of feedback from law enforcement agencies.

The second involves the quality of reports made to respective Financial Intelligence Units (FIUs) involving suspicious transactions or activities. Given the stringent regulatory requirements across most jurisdictions and hefty financial penalties for compliance violations, the industry spends billions of dollars for software systems as well as for the hiring and training staff in order 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 possess different levels 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.

Singapore initiative: A way forward

A new initiative by the Monetary Authority of Singapore (MAS) goes some way towards overcoming the two issues above. On 4 August 2006, MAS 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 a 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 the refinement of transaction monitoring capabilities, enable suspicious transactions or activities reports to be more intelligence-led, provide justification for a commitment of resources and, most importantly, it would allow relevant agencies to disrupt the 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 be geared to continuously 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 within respective agencies, and identify global best practices in AML/CFT issues in order to make them applicable at the domestic and regional level. Ultimately, with a robust AML/CFT regime integrated within the overall counter-terrorism strategy, it would be possible to create an environment where terrorist groups have great difficulty in financing their operations, perpetrators of a terrorist attack are easily identified and future attacks can be prevented.

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