

Despite progress since 9/11, government must do more to combat terror finance, experts say

Sep 09 2011 Brett Wolf essential

The fight against terrorism financing has advanced in the 10 years since the September 11, 2001 attacks, but vulnerabilities remain in areas such as digital currencies and alternative transfer networks, and bureaucratic turf battles have reemerged, say former law enforcement officials who pioneered U.S. counter-terrorism financing efforts.

"We cannot forget that the technological methodologies for moving funds around the world are changing exponentially everyday. We've got to keep up with that," a former U.S. counter-terrorism official with the departments of Treasury and Justice told Thomson Reuters.

U.S. officials told a conference on Thursday that militants were increasingly turning to robberies and kidnappings to raise money - a new tack in terrorism financing. "The nexus of crime, terror, and corruption is extremely worrisome, particularly for its capacity to generate new and substantial sources of funding that could fuel terrorist operations against the United States and our partners," said John O. Brennan, assistant to the president for homeland security and counterterrorism.

Swift targeting

After 9/11 the U.S. government moved quickly to target the finance networks that allowed militant groups to funnel their money around the world to fund their operations. Congress enacted the USA PATRIOT Act of 2001 to stifle these clandestine money flows; new law-enforcement and intelligence units were launched, and there was a lull in the "turf battles" that had inhibited interagency information sharing.

Dennis Lormel, who created the Federal Bureau of Investigation's Terrorist Financing Operations Section after 9/11 and is now a consultant, said that prior to the attacks, "there really wasn't any consistent or concerted effort against terrorist financing, particularly within law enforcement agencies."

"It was kind of a one-off process and agencies didn't have a dedicated group to combat it. They dealt with it on a case-by-case basis and a lot depended on the comfort level the investigating agents had with financial investigations," he said.

Lormel said dedicated entities such as the FBI's terrorism finance section the Treasury Department's Office of Terrorism and Financial Intelligence, which was created in 2004, have made it more difficult for terrorists to move money undetected. He said the Defense Department's focus on "threat finance" – a military term for terrorist financing – and the Central Intelligence Agency's financial operations have also upped the ante.

"9/11 was the pivotal moment when we decided we had to go after the money. That is when the different agencies started focusing on terrorist financing. I think we're a lot better off today than we were prior to 9/11; there are a lot of good mechanisms in place," Lormel said.

High marks

Lormel's assessment agrees with that of the so-called 9/11 Commission, a bi-partisan group that investigated the attacks and made 41 recommendations for improving national security. In 2005, the Commission, which has since been disbanded, issued a "report card" that evaluated progress the government had made in implementing the recommendations. It gave the government an "A-" for its counter-terrorism financing efforts – the best mark on the report card.

Last week, the Bipartisan Policy Center, which monitors implementation of the 9/11 Commission's recommendations and includes some of its members, issued a "10th anniversary report card" that outlined nine "unfinished" recommendations, but did not mention terrorist financing. When asked why the issue was not addressed, center spokeswoman Ashley Clark said the group "did not look at it closely" because it was viewed as one of the areas where the government has made the most progress.

"We focused our attention on what we believed are the priority unaddressed issues, but there may be new vulnerabilities in money laundering with new technology that are worth looking at," Clark said.

More public-private sector cooperation needed

However, like other experts interviewed by *Thomson Reuters*, Lormel said there are additional steps he would like the government to take. For instance, while government agencies work with financial institutions – relationships that have led to successes in the fight against terror finance – he would like to see more collaboration.

Lormel said that when he was leading the FBI's terrorism finance unit, he thought he was utilizing the private sector to the fullest extent possible, but after several years of working outside the government, he now realizes he could have done more.

"I see that the government thinks they're doing an outstanding job of working with and listening to the private sector and sharing information. They think they have a great relationship; the reality is they don't. The information-sharing and partnership is not at the level it needs to be. That is one of the things we really need to address and take stock in is getting the government to realize it could be doing more," Lormel said.

For instance, the government needs to spend more time collecting banks' ideas with regard to terrorism financing, Lormel said. He added that banks have a wealth of information, such as detailed transaction histories, that could yield new ways to spot funds for terrorism.

"That is not understood by the government the way it should be," Lormel said.

As evidence, he cited a partnership between JPMorgan Chase Bank and the Department of Homeland Security that is helping to combat human trafficking. In consultation with DHS, JPMorgan began searching online advertising sites for sex-related posts, focusing on those containing keywords such as "underage" or "young." They used phone numbers and other information in the ads to scrub their accounts and transactions for payments to the advertising sites and thereby identified customers who might be linked to human trafficking.

To put the idea into the context of terrorism, Lormel said a primary threat facing the U.S. government is so-called "lone wolf" militants, some of who attend training camps overseas and then return to the United States to carry out attacks. These people conduct normal transactions one day, then "drop off the radar screen" for months while attending training camps in Afghanistan or elsewhere, then pick up where they left off upon their return, he said.

"When you look at these patterns, you can flag that. The government can say this is the pattern of activity we're looking for. Banks can then do targeted monitoring. There is not enough of that being done," Lormel said.

J. Chris Warrener, who was named section chief of the FBI's terrorism finance unit last October, said he was charged with reorganizing the unit to build strategic intelligence, targeting, and operational components. He said that TFOS has not employed the tactic suggested by Lormel to target lone wolves. He added that while "there is room for more" collaboration between the unit and the financial services sector, an "ongoing dialogue" already exists.

Specifically, the terrorism finance section has a "financial sector working group" that involves 30 financial institutions, including all of the major U.S. banks and some broker-dealers, which meets three times a year, Warrener said. He added that the participating institutions receive classified briefings aimed at teaching them how they can help the Bureau.

"What it means is we're looking at other information that helps us to identify those things we're not aware of," he said. "Since 9/11, the whole idea is prevention, so we're looking for networks we don't know about.

"When [financial institutions] see something that is really unusual, they don't hesitate to pick up the phone and let us know 'we're working on this suspicious activity report and you need to look at it.' I think the word has gotten out that the more information you can give us, the more able we are to resolve whether this is terrorist financing or something else."

Security clearance for bankers

Lormel said the government would be wise to grant security clearances to top bank compliance officials, echoing a suggestion that has long been discussed in anti-money laundering (AML) circles.

"I would provide select individuals with security clearances and use those people to disseminate select classified information that has financial intelligence value to run in their systems and come back and identify potential activity," Lormel said.

He added that the government should offer financial institutions more feedback when they file suspicious activity reports, or SARs, that prove valuable to investigators. He said there have been hundreds of law enforcement investigations since 9/11 that have had a link to terrorism, and if someone analyzed the SARs that aided those probes, it would give financial institutions "a better idea of typologies and trends" they should be reporting.

"Somebody needs to analyze those cases and if SARs were filed, for structuring or fraud, it would be great to get an assessment of why they were filed. [Treasury's Financial Crimes Enforcement Network] and the FBI have the capability, but perhaps not the resources, to do that," he said.

According to FinCEN, the number of terrorist financing SARs filed by banks increased by 30 percent from 2009 to 2010, from 545 reports to 711. And some SARs have proven valuable to law enforcers.

In May, the Justice Department announced it had uncovered a Miami-area ring that funneled more than \$50,000 to the Pakistani Taliban using bank accounts and wire transfer services in the United States and Pakistan. It said SARs helped uncover the scheme.

Still, some AML compliance officers say they continue to lack the information they need to effectively spot terrorists' transactions, which tend to blend-in with other transactions. This is because many transactions involving terrorists living in the U.S. involve rent, utility and other run-of-the-mill payments. Others are linked to credit-card fraud and other crimes that may appear on financial institutions' radar, but will not appear to be linked to terrorism.

When asked for his opinion on granting security clearance to compliance officers, Warrenner said it is a good idea.

"I think it is something we could probably do. That really is the issue; they want to help us and we want them to help us," he said.

Warrener added that with more than 1 million SARs filed each year, it is a challenge to identify those that are pertinent to the mission of the FBI's terrorism unit. He said analysts do not necessarily zero-in on those documents on which the terror finance check-box has been ticked, but rather have developed a process that allows them "to focus in on the most important ones." While he could not publicly disclose the process, he did say it does not involve scanning for Arabic names.

Warrener also noted that TFOS tries to communicate important unclassified information to financial institutions via the so-called 314(a) information sharing process, a product of the PATRIOT Act. For instance, he said that when the English-language, Al Qaeda-linked publication Inspire Magazine called for the murder of financial institutions' chief executives earlier this year, many institutions contacted the bureau to find out if their CEOs were on "the list."

"Through 314(a) we were able to let them know the information was not specific and let them know what the article was about and what it said to increase awareness. It's not something we do very often, but if we have an issue there is a lot of concern about, it allows us to say 'this is what we're seeing,'" he said.

Alternative funds transfer networks

John Cassara, a former covert intelligence officer and Treasury special agent, pioneered the government's efforts to identify the terrorism financing threat posed by alternative funds transfer networks, such as hawalas, as well as trade-based wealth transfers.

Cassara, who outlined his experiences in the book "Hide and Seek: Intelligence, Law Enforcement, and the Stalled War on Terrorist Finance," said that after 9/11, the government began "breaking down walls" that had prevented information sharing between agencies. He added that policymakers eventually did a better job of recognizing that militant networks use many tactics to move money and value.

"For the first two or three years after 9/11, the bureaucracies were wedded to the idea that [banks'] financial intelligence was a cure-all for the 'war on terror.' They were not willing to look at alternative methods of value transfer like hawala. Financial intelligence existed because of the 'war of drugs' and it was never intended to combat terror finance," Cassara said.

He added: "The learning curve on how our adversaries move money was kind of steep, but I think they finally got it."

Cassara said he remains concerned about the potential for international trade to be misused by terrorists to move wealth between countries, by over- or under- valuing goods on trade documents. He said he is also worried about the threat posed by digital-currencies, some of which allow users to hide their identities.

"These are huge challenges that are going to get much more acute in the years ahead and I don't see law enforcement, regulators and industry talking to each other the way they should to come up with countermeasures. And if we wait much longer, it's going to be too late," he said.

The former counter-terrorism financing official with Treasury and Justice, who spoke on condition of anonymity due to the nature of his current work, said the government's progress against terror finance is demonstrated by the absence of major terror attacks in the United States since 9/11. He also noted that authorities did a good job of tracing the hawala network that funneled money to attempted Times Square bomber Faisal Shahzad.

However, he added that "we really do need to get a better sense of alternative financing capabilities." Specifically, he said the U.S. government must get a better handle on foreign prepaid debit card programs, which he said are quite common.

"A bank in Pakistan could develop a prepaid debit card and that is basically a walking bank account. With that, there are no footprints in the U.S.," the source said. "You can have a guy walking around with a card funded by people in Pakistan and withdrawing cash at ATMs in the U.S. and we've got no information."

"We should find out how many of these programs are out there and who is monitoring them."

The source said digital currencies also keep him awake at night.

Turf battles

For the first six or eight months after 9/11, government agencies began sharing information and some of the traditional "turf battles" ended, the source said. He added, however, that such problems quickly returned and "are hurting us out there."

"People might say the issues are personal, not structural, but what difference does it make? If there is someone who won't share data, it doesn't matter," he said.

Bolstering information-sharing between federal intelligence agencies was one of the 9/11 Commission's chief recommendations and it was hoped that the naming of a Director of National Intelligence to oversee the agencies would aid that effort. However, the Bipartisan Policy Center's report stated that while information sharing has

increased to a degree, ambiguity regarding the DNI's authority has affected the "unity of effort."

With regard to terrorists' use of alternative funds transfer networks, Warrenner said the FBI unit is "seeing some of that sort of thing" in reaction to FBI's efforts to monitor the traditional banking system and said such tactics are a concern because they change rapidly. However, he added that the FBI has not seen "widespread use" of such funds transfer methods by militants.

Warrenner denied that turf battles are impacting the fight against terrorist financing. He said that while occasionally there is "a personality issue where someone feels threatened," for the most part, information sharing takes place "pretty well."

"We work closely with other government intelligence agencies and on a daily basis we have people over there and they have people over here; it's not a big issue. In today's world no one wants to be accused of not sharing information," he said.

Treasury officials have expressed similar values. In testimony for a House Financial Services subcommittee in advance of a hearing this week on terrorist financing, Daniel Glaser, Treasury's assistant secretary for terrorist financing, touted the importance of collaboration.

"Going forward, we must continue to work with our interagency partners and the private sector to ensure that we are collecting, sharing and applying useful financial information to combat terrorism and other threats," Glaser said.

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