

White Paper

The challenges of Terrorist Financing in 2013 and beyond

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Introduction

On October 3, 2001, I testified about terrorist financing before the House Financial Services Committee. I stated that **“funding is the lifeblood of terrorist organizations.”** Many factors regarding terrorism have changed significantly since 2001. One constant remains: Funding is the lifeblood of terrorist organizations. Terrorists require financial support in order to succeed. They must have effective financial infrastructures and support mechanisms to ensure they have a steady flow of funds. Without funding, terrorists cannot operate effectively.

An unfortunate reality is that there will be more successful terrorist attacks in the United States (U.S.) The increasing threat posed by homegrown or lone wolf militants and the simple nature of constructing an explosive device, as evidenced by the Boston bombing, makes detecting and preventing such attacks extremely challenging. The increasing homegrown threat, coupled with the ongoing and changing threats posed by terrorist groups, makes the challenge of terrorism a daunting one. The best chance to prevent terrorists from succeeding is to disrupt their ability to raise, move and access money.

Terrorist financing is extremely difficult to identify. The ability to identify and disrupt terrorist financing begins with a strong foundation that includes three elements:

- Coordination
- Innovation
- Training

There must be coordination between U.S. government agencies; coordination between the public and private sectors; and coordination between the U.S. government and nations throughout the world. Inherent with coordination are cooperation and communication. The greater the level of cooperation and communication, the more effective the level of coordination will be.

There are significant changes taking place regarding terrorism. To deal with the changing landscape, the public and private sectors must develop new and innovative mechanisms to identify and disrupt terrorist financing. There needs to be more targeted and proactive transaction monitoring and/or investigative techniques developed and implemented to thwart terrorists.

Training to promote a sense of awareness and understanding of who terrorists are, how they operate and how they raise, access, move and spend money is essential. Terrorist financing is not adequately understood. Training and experience lead to understanding. To better understand terrorist financing four factors must be considered: the terrorist groups themselves; their funding capacity; the financial mechanisms they use; and the individuals, entities and cells who comprise the terrorist groups. They each have their own financial requirements which leave a traceable trail.

Partnerships and perspectives are important in accessing and assessing financial information. The government and industry have different perspectives, but they share the same end game: deny terrorists the ability to move and access funds unencumbered. As criminals, terrorists and our financial system continue to become more sophisticated, financial transactional information becomes more relevant as a critically important investigative mechanism.

Finance and communications are the biggest vulnerabilities to bad guys. An investigator’s ability to collect and use financial information can be devastating to terrorists and criminals. Without money, terrorist and criminal organizations cannot adequately function. Financial investigations should be an integral part of all terrorist investigative strategies. Knowing what financial information is relevant, where to collect it from, and how to use it is knowledge all investigators can benefit from.

The changing terrorist landscape

The landscape in the terrorist world has changed dramatically in the last few years. The ongoing chaos across the Arab world has driven much of the evolving developments. Most of the Middle East, as well as regions in Africa, are directly caught up in the chaos and violence. The impact caused by these changes resonates not only with those countries directly involved but with countries throughout the world.

The core al-Qaeda organization, particularly its leadership, has been decimated and greatly diminished by drone missile attacks in Pakistan and most recently in Yemen. However, they are showing resiliency through recruitment of jihadists to fight and train in Syria and through a series of jailbreaks in Pakistan, Iraq and Libya. This has resulted in a resurgence of al-Qaeda foot soldiers and future leaders. This resilience will cause al-Qaeda to remain a significant threat. Al-Qaeda affiliate groups such as al-Qaeda in the Arabian Peninsula (AQAP) and al-Qaeda in Iraq have emerged as formidable international threats. AQAP operates in regions of Yemen where the Yemeni government has little or no control. Al-Qaeda in Iraq resurfaced in Iraq following the withdrawal of U.S. troops. They have branched out beyond Iraq and have become a significant presence in the fighting in Syria. Their intent is to become a regional and global player.

Hizballah remains the most dangerous, capable and well organized terrorist group in the world. The military wing of Hizballah was recently designated as a terrorist group by the European Union (E.U.) Hizballah has blamed the U.S. and Israel for the E.U. sanctions. Two significant questions arise as a result of the E.U. designation. Will there be financial consequences to Hizballah in terms of funding constraints? What are the consequences for the rest of the world? As an extension of the second question, will the E.U. sanctions cause Hizballah to retaliate against the E.U., the U.S. and/or Israel? Criminal organizations and terrorist groups have increasingly found common ground of mutual benefit. Each has learned how to benefit from conflict through violence and crime. The wars in Iraq, Afghanistan and most recently Syria exemplify this fact. More troublingly, terrorists and criminals have learned how to benefit from convergence and diversification.

Convergence

Covergence is the intersection where criminals and terrorists work together to support each other with the goal to maximize the benefit of their individual causes. They realize mutual as well as individual benefits thus promoting collaboration.

Diversification

Diversification takes place as organizations mature in operations and sophistication. With maturity and sophistication, they diversify into different activities and thereby grow and strengthen their operations. These organizations rely on legitimate and illegitimate fronts to conduct business in furtherance of operations.

As we look back, the players of concern were identified as:

- Individuals or groups engaged in fraud and other criminal activity
- Gangs
- Drug dealers, organizations or cartels
- Ethnic organized crime groups
- Terrorists or terrorist groups

As we go forward, especially considering the convergence between different groups and the diversification into a variety of licit and illicit activities, the players should be identified as follows:

- Individuals or groups engaged in fraud and other criminal activity
- Domestic criminal organizations
- Transnational criminal organizations
- Terrorists or terrorist groups
- State sponsors

In developing future strategies to identify activities attributable to the redefined groups of bad guys, it is important to understand the commonalities shared by the different groups. Each relies on facilitation tools to navigate the financial system; they benefit from each other through convergence; as they mature, they diversify; and they all must have ready access to money.

The current terrorism threat in the United States

On May 16, 2013, FBI Director Robert S. Mueller testified before the Senate Appropriations Committee. His points regarding the threat of terrorism in the U.S. included:

- The threat from terrorism remains complex and ever changing. There has been greater cooperation among terrorist groups.
- The threats from homegrown terrorism are also a great concern. These individuals are difficult to detect.
- The radicalization to violence remains an issue of great concern. It is more prevalent now than in the past.
- The internet has a profound impact on radicalization. The internet provides tools for recruiting, training and planning.

Regarding homegrown violent extremists, they have become more savvy, harder to detect, and able to connect with other extremists overseas. Most newly recruited homegrown extremists have not been previously known to law enforcement and intelligence agencies. This makes identifying them before they act, challenging. In many instances, these individuals have enlisted the assistance of other individuals to carry out their planned terrorist activity. Often times they planned to carry out more complex schemes requiring help. Invariably in those situations, the jihadist has found his way to undercover law enforcement investigators or informants. The Boston bombing illustrates what can happen when the homegrown operative does not seek assistance and keeps the plot simple.

Al-Qaeda continues to be a primary concern to the U.S. Although their leadership and operational capabilities have been greatly diminished, they remain a threat. As the core al-Qaeda group regenerates its foot soldiers and future leaders through recruits fighting in Syria and as a result of select jailbreaks in Pakistan, Iraq and Libya, the threat posed by al-Qaeda will grow. Groups affiliated with al-Qaeda, to include AQAP and al-Qaeda in Iraq are self-sufficient, self-funded and capable of causing problems well beyond their home territory. Both AQAP and al-Qaeda in Iraq aspire to carry out attacks in the U.S.

Iran is a State sponsor of terrorism. Iran and Iranian proxies such as Hizballah are capable of carrying out terrorist activities in the U.S. Since the U.S. is an extremely furtive fundraising haven for Hizballah, they are less likely to carry out an attack on the U.S. homeland. However, if they felt threatened or thought Iran was being threatened, they could be inclined to attack the U.S. As noted earlier, attention needs to be paid to determine if Hizballah will retaliate against anyone, including the U.S., because of the E.U. sanctions.

The internet has expanded as a platform for spreading extremist propaganda. It serves as a tool for online recruiting and a medium for social networking with like-minded violent extremists, all of which may be contributing to the pronounced state of radicalization inside the U.S. The internet also facilitates the ability of terrorists to be adaptable, flexible, anonymous, and to exploit societal and systemic vulnerabilities.

On August 25, 2010, the CIA reported that for the first time since 9/11 an al-Qaeda offshoot group was a greater threat to the U.S. than core al-Qaeda. AQAP was the affiliate group. The threat posed by AQAP in 2010 is prevalent today. In 2010, AQAP was responsible for the attempted UPS parcel bombing on a flight from Yemen to the U.S. and the Christmas day underwear bombing on a flight from Yemen to Detroit. AQAP was most recently responsible for the August 2013, threat that caused the closing of 19 U.S. Consulates in the Middle East. In addition, AQAP publishes "Inspire" magazine, which is a successful recruitment tool.

"Inspire" is an English language online magazine published by AQAP. The first edition was published in July 2010. There have been 11 issues published. Issue 11 was published in June 2013. It praised the Tsarnaev brothers for carrying out the Boston Marathon bombing. "Inspire" is a resource manual. It offers a blueprint for planning and executing terrorist attacks in the West against U.S. targets. It provides explicit detailed instructions to build a bomb. "Inspire" also serves as a recruitment tool to cultivate homegrown jihadists. It influenced the Tsarnaev brothers, Nidal Hassan, the Fort Hood shooter, and many other individuals.

The jihadist movement is divided into three basic elements:

- Al-Qaeda the core organization
- Regional jihadist franchises
- Grassroots operatives

When looking at the three categories, there are two distinct types of operatives: professionals and amateurs. For the most part, al-Qaeda and regional groups are highly trained professionals. Grassroots operatives tend to be amateurs. However, there is a continuum where grassroots operatives range from being untrained lone wolves to ones who received varying levels of training. These individuals never joined al-Qaeda or other formal militant groups.

Boston marathon bombing

The Tsarnaev brothers, Tamerlan and Dzhokhar, carried out an attack near the finish line of the Boston Marathon, on April 15, 2013. Subsequently, they initiated confrontations on April 18th and 19th that caused the Boston area to be locked down. Three individuals were killed, many others injured and a country was left traumatized by the reminder that the U.S. is vulnerable to terrorists.

The Tsarnaevs were lone wolves who acted alone. They were radicalized over time and were influenced significantly by "Inspire" magazine. They made their bomb based on directions provided in "Inspire". The devices were simple. The brothers detonated two pressure cooker bombs near the finish line of the Boston Marathon. Following the bombing, the Tsarnaevs were identified through videos generated by surveillance cameras and through mobile devices.

The Tsarnaevs began planning an attack in February 2013. According to Dzhokhar Tsarnaev, the decision to carry out the Boston bombing was made one week prior to the attack. In addition, the Tsarnaevs acted unilaterally and did not have any help. That left law enforcement with little opportunity to develop intelligence or to identify the plot.

The Tsarnaevs followed a simple plan. They relied on simple explosive devices as suggested in “Inspire”. Adam Gadahn is a former American who is now a spokesman for al-Qaeda. The Tsarnaevs followed Gadahn’s “a Call to Arms” guidance regarding target selection. They followed a three pronged process:

- Choose a target with which you are well acquainted
- Choose a target feasible to hit
- Choose a target, when struck, that has major impact

From the standpoint of lessons learned, the terrorist takeaways were that the U.S. continues to be vulnerable to attack and simpler is better. The simple nature of the bombing makes it likely that similar style attacks will be attempted. This also exemplifies that jihadism continues to attract new adherents. U.S. takeaways include the critical importance of interagency and public private partnerships. In addition, we learned the value of the social media as an investigative tool. The social media exposed the vulnerability of terrorists to communications through social media. The other important takeaway for the U.S. is, before jumping into the blame game, assess before rushing to judgment.

Current and emerging financial trends

In assessing current and emerging financial trends, we need to understand the local, to regional, to global nature of funding catalysts. World events lead to change. Change leads to opportunity. Opportunity drives corridors used to facilitate activities and funding flows. The availability of money based on the flow of funds influences the level of threat generated.

Triggers for financial trends rely on evolving funding sources ranging from legitimate to illegitimate. Legitimate funding sources for terrorist causes have consistently diminished. As a result, there is a growing reliance on criminal activity as a funding mechanism. Terrorist and criminal organizations must have continuous access to funds. Global money laundering requires the use of facilitation tools. Facilitation tools used by terrorist and criminal organizations are dependent on world events and governance. As noted above, this ranges from local, to regional, to global. Trends regarding financial mechanisms used by terrorist and criminal organizations are driven by opportunity.

The most significant facilitation tools used by terrorist and criminal organizations include:

- Wire transfers
- Correspondent banking
- Illegal money remitters
- Shell companies
- Electronic mechanisms

A common thread or vulnerability between the above facilitation tools exploited by bad guys is anonymity. When terrorists and criminals can conceal beneficial ownership, they can operate more freely and use facilitation tools more openly and effectively.

In addition to money laundering through formal and informal financial systems, terrorist and criminal groups rely on other money laundering mechanisms to include bulk cash smuggling and trade based money laundering. As financial institutions and regional governance in traditional financial systems becomes more rigorous, terrorists and criminals rely more on the alternative mechanisms of bulk cash smuggling and trade based money laundering. Bulk cash smuggling is a method that keeps illicit proceeds and related activity away from the scrutiny of financial regulators and law enforcement. This technique is commonly used by terrorists. Trade based money laundering relies on international trade to move money around the world.

Free trade zones were created to promote trade and economic growth. However, they also serve as a facilitation tool for trade based money laundering schemes.

Trade based money laundering schemes are more prevalent in cases where terrorist and criminal organizations act collaboratively in global schemes to launder the proceeds of illicit activity, such as drug trafficking.

Contrasts of using the financial system

In using the financial system, terrorists are confronted with distinct contrasts. On one hand, the financial system serves as a facilitation tool for terrorists. On the other, it functions as a detection mechanism. The financial system serves as a facilitation tool by providing continuous access to funds. As highlighted at the outset, financing is the lifeblood of terrorist organizations. The financial system serves as a detection mechanism because funds can be identified through transaction monitoring and/or by investigation. Finance is a major vulnerability of terrorists.

Terrorists and criminal organizations typically move money in a manner to avoid detection. They must be careful because most financial mechanisms have monitoring and/or investigative measures that financial institutions and/or law enforcement can use to identify illicit and/or suspicious activity. As noted above, terrorists and criminals want to avoid detection. Mechanisms they use to support their covert movement of funds, which could be detected include:

- Corresponding banking
- Wire transfers
- Remote deposit capture
- Depository accounts
- Debit/credit/prepaid cards
- Use of nominees
- Use of false identification
- Bulk cash shipment
- Shell companies
- Trade based finance
- Money services businesses
- Illegal money remitters
- Electronic mechanisms

Understanding funding flows

In order to understand and disrupt funding flows to terrorists, you must understand four dimensions:

1. You must understand the terrorist organization. Who are they? How large are they? Where do they operate? What type of infrastructure do they have? How do they raise money? What are their funding requirements?
2. What is their funding capacity? Specifically, what are their sources of funds; how do they launder money; and what is the availability of funds?
3. What funding mechanisms do they rely on? Do they deal in the formal financial system, the informal system or a combination of the two?
4. Who are the group members? What are their individual financial requirements?

There is a funding cycle. It begins with the raising of money, progresses to the movement and/or storage of money and then to either the continued movement and storage or the ultimate spending of money. The flow of the funding cycle is influenced by the terrorist organization, their funding capacity, funding mechanism and group members.

There is a wide range of terrorist financing cases. It starts with the diverse nature of terrorist financing. There is fundraising and financing for operations, which are extremely different. Fundraising generally involves larger funding streams. Operations involve more minimal amounts of funding. Both rely on licit and illicit funds. Legitimate funding streams are drying up. Illegitimate funding encompasses the full gamut of criminal activity.

In order to disrupt funding flows, you need to go back to the point of origin and forward to the terrorist strike teams. In that context, there are three funding tracks. The first is funding to a network or organization. The flow begins at the point of origin. This funding stream ranges from hundreds of dollars to millions of dollars. The next track is funding to operations. This funding stream ranges from thousands to hundreds of thousands of dollars. The last track is funding to individuals, cells or groups. This funding stream ranges from hundreds to thousands of dollars.

Thinking forward beyond 2013

In looking beyond 2013, we need to develop mechanisms to identify and address the convergence and diversification of terrorist and criminal groups. As these groups continue to collaborate and benefit from each other, monitoring and investigative techniques must be calibrated to identify the point of the nexus. That calls for the development of innovative and proactive initiatives, which involves targeted transaction monitoring and investigative methodologies. In addition, as terrorist and criminal organizations mature, they diversify. This requires more vigilance in the process of identifying the totality of organizational operations.

As we look forward, we must assess emerging threats, financial requirements associated with those threats and the transformation of the terrorist landscape. As chaos continues in the Arab world, a number of questions will need to be answered, to include:

- How will the ongoing and future unrest and conflict effect terrorist and criminal groups?
- How will E.U. sanctions effect Hizballah's operations?
- Will the core al-Qaeda group experience a significant resurgence?
- Will al-Qaeda related groups such as AQAP and al-Qaeda in Iraq pose a threat to the U.S.?
- How can the U.S. diminish the growing homegrown terrorist threat?

New strategies to deal with the emergence of convergence and diversification, as well as the changing dynamics of terrorism require specialized training. This training should focus on the transformation of terrorist groups, their affiliation with transnational criminal groups, their funding sources and how they use money to support their operations. The training should contain specific case typologies and examples where the convergence, diversification and transformation are dissected and analyzed.

A good example of such a case study is the Lebanese Canadian Bank case, where the Joumma criminal organization, Los Zetas drug cartel and Hizballah aligned in a global drug trafficking and money laundering operation.

Countermeasures

Countermeasures, in terms of terrorist financing, begin with public private partnerships. Law enforcement and the financial services industry each possess financial intelligence information the other can significantly benefit from.

Meaningful and sustainable information sharing requires three elements:

- **Understanding perspectives**
 - Law enforcement and financial institutions have different perspectives. Traditionally, law enforcement focuses on criminal prosecutions, whereas financial institutions focus on regulatory concerns. When it comes to terrorist financing, both want to detect, disrupt and prevent terrorism.
- **Partnerships**
 - Partnerships form the gateway to meaningful and sustainable information sharing.
- **Innovation**
 - Developing proactive methodologies, such as crime problem specific targeted monitoring for patterns of activity recognizable with the identified crime problem. This requires information sharing among partners.

Financial institutions are the repositories for significant financial intelligence information. Law enforcement is the beneficiary of financial intelligence. The ability of financial institutions and law enforcement to collaborate and identify actionable financial intelligence information in a timely manner is a powerful tool.

Law enforcement conducts financially focused investigations to disrupt and/or prevent the flow of funds to terrorists. These investigations are conducted to support the broader U.S. government counterterrorism mission. In terrorist financing investigations, law enforcement is the collector and producer of actionable financial intelligence. Law enforcement is the direct beneficiary of Bank Secrecy Act (BSA) data. When it comes to suspicious activity reports (SARs), the perspective of law enforcement is focused on the “why”. Why does the financial institution consider activity as being suspicious?

Financial institutions are required by the BSA to maintain robust anti-money laundering (AML) programs to safeguard the system from money laundering and terrorist financing. Financial institutions originate BSA reports. When it comes to SARs, the perspective of financial institutions is focused on the “how”. How did terrorists and/or criminals use the financial institution to facilitate their nefarious activity?

Law enforcement must understand the importance of the “how” and provide financial institutions with feedback regarding how the institution was used. Conversely, financial institutions must emphasize the “why” to law enforcement when filing SARs and through follow up contacts. Dealing with the how and why sets the stage for financial institutions and law enforcement to develop innovative ideas and proactive countermeasures. This requires coordination, cooperation and communication.

Using financial intelligence to develop actionable information for monitoring and/or investigating terrorist financing in a timely manner is essential. The better the financial intelligence and understanding of terrorist money flows, the better the prospect for developing targeted monitoring and/or investigative initiatives.

Financial intelligence can be used effectively in three investigative methodologies:

- **Strategic investigations**
 - Trend analysis used to identify emerging trends
- **Tactical investigations**
 - Proactive targeted operations intended to disrupt funding flows
- **Historic investigations**
 - Reactive traditional investigations conducted to follow the money

Conclusion

The current terrorist landscape and threat environment is changing and evolving at a quickening pace. The convergence and diversification of terrorist and transnational criminal organizations make this environment more sophisticated, complex and ever changing. The resulting impact has a local, to regional, to global reach.

The changing terrorist landscape also causes changes to the financial landscape of terrorism. Legitimate funding sources have continuously diminished. As a consequence, there is a growing reliance by terrorists to engage in criminal activity as a funding mechanism. This opens the door to a greater level of convergence between terrorist and criminals. Dealing with the evolving trends and convergence between terrorists and criminals requires forward thinking by the public and private sectors to develop countermeasures to disrupt current and emerging trends in terrorist financing.

New strategies and methodologies should include:

- Terrorist financing specific training to understand the totality of the challenge of identifying terrorist financing, to include the issue of convergence;
- The identification of actionable financial intelligence;
- Development and implementation of proactive initiatives through targeted monitoring and/or investigative initiatives.

Funding is the lifeblood of terrorist organizations. Funding also represents one of the most significant vulnerabilities to terrorists. The better we understand the problem; the better we understand the flow of funds; the better the quality of actionable financial intelligence; and the more innovative we are; the more likely we will be positioned to disrupt and/or prevent the flow of funds required to support terrorist activities.

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Dennis M. Lormel is a recognized subject matter expert in the anti-money laundering, terrorist financing, and fraud communities. Mr. Lormel is an accomplished speaker and is routinely engaged to provide training at industry conferences. In addition, he frequently participates in media interviews that reach both the U.S. and international markets. This exposure and his vast experience in the law enforcement and consulting fields have afforded him the opportunity to develop a unique and diverse network of colleagues and clients.

After the tragedy of 9/11, Mr. Lormel realized that the terrorists needed a financial infrastructure to accomplish the attacks. He immediately established an investigative organization within the FBI that, within days, identified the funding stream that supported these attacks. This is but one example of his expertise in assessing and establishing viable and effective recommendations that produce results.

In addition to Mr. Lormel's distinguished 31 year career in Government service, he has consistently delivered high quality consulting services to clients since 2004. The combination of law enforcement and financial services experience provides a comprehensive perspective on the issues that face individuals and corporate entities in today's complex world. Understanding the nexus between fraud and money laundering, especially on the heels of the financial crisis, allows Mr. Lormel to provide more comprehensive guidance to clients. The need for these services is increasing in the current economic environment.

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