LIECHTENSTEIN INITIATIVE | FINANCE AGAINST SLAVERY & TRAFFICKING

FAST INSIGHT 1

Financial Crime Compliance to fight modern slavery and human trafficking

About FAST

GOAL 1

Finance Against Slavery and Trafficking (FAST) is a global public-private partnership mobilizing the financial system to fight modern slavery and human trafficking. The FAST Blueprint (September 2019) sets out five Goals and thirty Actions for financial sector actors to address modern slavery and human trafficking. This Insight focuses on the role of the financial crime compliance community, especially under FAST Goal 1.

Modern slavery and financial crime

- Modern slavery – slavery, forced labour, debt bondage and human trafficking – generates around $150 billion in revenue a year. Much of this is laundered through the formal financial system.
- Modern slavery and human trafficking are crimes of crimes. Even if they are not criminalized as such, the conduct involved – which may include theft, fraud, kidnapping, assault or bribery – usually constitutes a predicate crime, creating anti-money laundering and counter-terrorist financing obligations for the finance sector.
- Where regulators and FIUs include a reporting question about whether indicators of human trafficking are present, reporting typically increases by 1,000%. This suggests there has been significant under-reporting.
- Terrorist groups, including ISIL/Da'esh and Boko Haram, have engaged in large-scale enslavement and human trafficking, creating terrorist financing risks.
- As it is illegal and must be hidden, human trafficking is also often closely associated with corruption, bribery, illicit financial flows, and other financial crimes.
- Traffickers exploit victims' financial identities to launder funds and commit tax and welfare fraud.

More Information

- On modern slavery: Walk Free, Global Slavery Index; FATF, Financial Flows from Human Trafficking (2018).
- On the role of the financial sector: FAST, Unlocking Potential: The FAST Blueprint.
- On ISIL/Da'esh: Nadia Al-Dayel and Andrew Mumford, ISIS and Their Use of Slavery (ICCT, 2020).
- On human trafficking and corruption: OECD, Trafficking in Persons and Corruption: Breaking the Chain (2016).
- On tax fraud: Human Trafficking Legal Center, Tax Issues Affecting Victims of Human Trafficking (2019).

Financial crimes compliance

- Compliance risks associated with modern slavery and human trafficking are significant.
    - In 2020, the largest corporate fine in Australian history (AUD 1.3 billion; USD 0.9 billion) was imposed on Westpac, Australia's oldest bank, for AML violations connected to online sexual exploitation of children.
    - In the US, Western Union paid a $94 million AML violation fine related to trafficking.
    - The US government has advised entities with ties to the US financial system to assess their potential exposure to the risk of handling the proceeds of forced labour on behalf of their clients, and, as appropriate, implement a mitigation process in line with the risk.
- Financial institutions are also required to undertake compliance actions relating to sanctions and designation of individuals and entities associated with human trafficking.
    - The UN Security Council has designated six Libyan human traffickers.
    - The US government has sanctioned both transnational criminal organizations and foreign officials for involvement in forced labour and human trafficking.
    - The UK government has sanctioned 2 North Korean companies for use of slave labour.
    - In Brazil, many financial institutions refuse business to entities on the *lista suja* ("dirty list") of entities found to have used slavery and slavery-like practices.

More Information

- On UN Security Council sanctions: UNSC, Narrative Summaries of Reasons for Listing.
- On US actions: U.S. Department of Treasury, Transnational Criminal Organizations and Departments of State, Treasury, Commerce and Homeland Security, Xinjiang Supply Chain Business Advisory.
- On UK actions: UK Government, Guidance: Financial sanctions, Democratic People's Republic of Korea.

Detecting the financing of human trafficking and modern slavery

- Most modern slavery takes place in private businesses. Identifying modern slavery and human trafficking can be challenging where it takes place inside otherwise legitimate business sectors.
- The private sector, along with financial regulators, have identified a wide range of typologies, risk indicators and red flags to help reporting entities spot signs of human trafficking.
    - The OSCE/FAST *Following the Money* compendium synthesizes these and provides step-by-step guidance on conducting financial investigations into human trafficking.
    - Existing typologies and indicators are based on reporting by banks in developed economies. They may offer limited guidance for other reporting entities, for correspondent banking relationships, and for reporting entities in emerging economies.
- Financial institutions are developing new transactions analysis tools.
    - JPMorgan Chase, Amex, Citi, US Bank, HSBC and others have used a mix of transactions data, open source materials and network analysis to identify indicators of human trafficking.

- IBM and StopTheTraffik have developed the TraffikAnalysis Hub for collaborative data mining to identify human trafficking risks. Traffic Jam takes a similar approach.

- South West Border Transactional Record Analysis Center has used data mining of remittances and money services business transactions data to identify suspicious transactions patterns. Approved law enforcement users access this data as a basis for investigations.

- In the Netherlands, banks, regulators, law enforcement and researchers are using artificial intelligence and machine learning to identify indicators of labour trafficking in transaction patterns.

More Information

- On red flags and indicators: OSCE, *Following the Money* (FAST Financial Investigations Tool, 2019).
- On data mining: *Traffik Analysis Hub* and *Traffic Jam.*
- On using AI and machine learning: Jill Coster van Voorhout, "Combatting Human Trafficking Holistically through Proactive Financial Investigation", J. Int'l Crim. Justice, 18(1) (March 2020), 87–106.

Learning, training and partnerships

- Because human trafficking can be hidden inside legitimate business, it is important to train financial sector personnel to identify it.

- Individual financial institutions may only be able to see a part of the puzzle. Partnerships between financial institutions, regulators, civil society and survivors can help financial institutions see the bigger picture and more successfully identify and manage modern slavery risks.

  - In Canada, Project Protect brings together regulators, financial institutions, law enforcement and survivors to strengthen understanding of human trafficking among member institutions. Project Protect has helped to drive an increase in reporting related to human trafficking and modern slavery in Canada.

  - The Anti-Human Trafficking Intelligence Initiative is a partnership of finance, civil society and tech organizations that generate financial data that can be used by law enforcement.

  - The Knoble is a network of financial crime compliance professionals developing solutions to protect vulnerable people, including those vulnerable to human trafficking.

  - In Asia, the Mekong Club is a private sector association that provides training and tools to financial sector and other businesses to fight modern slavery.

  - Founded in 2018 by Europol, the World Economic Forum and Refinitiv, the Global Coalition to Fight Financial Crime brings to together players in the fight against financial crime to advocate for strengthening of the global AML/CFT system.

- Actively integrating survivors can provide financial sector actors contextual knowledge to enrich their data analysis and help them spot patterns of trafficking.

More Information

- On training: FAST/ACAMS, Online Training Certificate on Fighting Modern Slavery and Human Trafficking.
- On partnerships: Project Protect, the Anti-Human Trafficking Intelligence Initiative, The Knoble, The Mekong Club, Global Coalition to Fight Financial Crime.

De-risking and reducing risks to people

- Financial institutions often think that they have to deal with AML/CFT risks by wholesale de-risking – refusing service to high-risk groups.
  - By locking vulnerable people out of the financial system and pushing them towards informal financial service-providers, this may increase the risk of modern slavery and human trafficking.
  - This may increase the financial institution's own risk exposure, as financial institutions are expected to take steps to reduce – not increase – modern slavery risks to people.
  - Financial institutions and their regulators should work together to identify good practice in avoiding wholesale de-risking.
- Survivors of modern slavery and human trafficking are at particular risk.
  - Survivors often find their path to financial inclusion complicated by association of their financial identify with AML/CFT red flags, often because their traffickers have hijacked their identity.
  - The FAST Survivor Inclusion Initiative supports banks' efforts to include survivors to prevent risks of a return to exploitation.

More Information

- On Inclusion: FAST Survivor Inclusion Initiative.

Priorities for government actors

- Incorporate modern slavery and human trafficking threats into AML/CFT risk assessments.
- Ask obliged entities to 1) identify potential financing of human trafficking and modern slavery by using available specific risk indicators; and 2) report any related suspicion to the FIU, e,g. through a specific question in Suspicious Activity/Transaction Reporting processes, as used in the U.S. and other jurisdictions.
- Encourage reporting entities to work responsibly together and with survivors to improve understanding of human trafficking indicators and develop more effective typologies.
- Encourage financial institutions to trace and freeze proceeds of slavery and trafficking crimes.
  - Around 0.25% of all assets frozen, globally, relate to human trafficking – though it is the third largest global crime by revenue.

Additional Resources

If you prefer to learn by listening, check out *Finance Against Slavery and Trafficking: The Podcast*.

This series explores the connection between global finance and modern slavery and human trafficking, looking at all the different ways the financial sector can harness its leverage to end modern slavery, forced labour and human trafficking.

The first three episodes of the podcast focus on the financial logic of slavery, how the profits from forced labour and modern slavery find their way into the financial system, and how banks, remittance companies and credit card companies have been analyzing financial transactions to spot modern slavery and human trafficking.

FAST has partnered with ACAMS to create an online training certificate, *Fighting Modern Slavery and Human Trafficking*. It is available free to anyone and can be taken at your own speed.

Learning points in the training include an introduction to modern slavery and human trafficking, emerging industry and statutory expectations relating to modern slavery and human trafficking risks, how to identify financial footprints of modern slavery through transactions analysis, red flags, and key indicators, and how to manage modern slavery risks through due diligence, transaction analysis, reporting and monitoring, engagement, divestment, and derisking.