



# Terrorist Financing in India

Keep a close watch on inward remittances

**Kenneth Rijock and John Solomon**

India is the world's largest recipient of inward remittances. Non-resident Indians (NRIs) now transfer almost \$25 billion a year to family members in India, surpassing long-time remittance leaders, Mexico and China. As the largest source of foreign capital, NRI remittances positively affect India's economy; however, the threat of terrorist financing remains considerable.

Terrorists and insurgents could increasingly exploit India's inward remittance system to fund their infrastructures and attacks on India and its citizens. Statistics from the US National Counterterrorism Centre indicate that terrorist attacks in India since 2001 have claimed more lives than in any other country save Iraq. Indian national security advisor, M K Narayanan recently said that 'reducing the flow of funds and money supply to terrorist outfits and organisations is perhaps the most vital aspect' in the fight against international terrorism.

While the financial cost of attacks is relatively cheap, the cost to maintain terrorist infrastructures is comparatively high. Travel, training, safe houses, satellite phones, bribery, electronic equipment, automobiles and weapons can add up to significant amounts. Terrorists and insurgents often source financial support from diaspora communities abroad.

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Consistent with the view held by general population, Indian intelligence officials indicate that terrorists are increasingly using regular banking channels and wire transfers for sending

money. The vehicles for inward remittances to India are varied, but the most important are:

- Electronic wire/Swift
- Personal cheques
- 'Travelers' cheques
- Hawala

## Banker is first line of defense

The inward remittance system as it exists today is vulnerable to terrorist movements seeking to fund their activities. A number of Indian banks are implementing systems to increase the level of scrutiny of remittances; to identify unusual or suspicious transactions or transfers; and to comply with governmental anti-money laundering regulations and standards. Yet, most compliance officers - the first line of defense in countering terrorist financing (CTF) - lack the proper information and tools to adequately address the threat.

The bankers are not to blame. Counterterrorism has historically been the responsibility of only the law enforcement, military and intelligence communities. But this arrangement no longer works. As Merrill Lynch's Robert Werner said recently, 'now more than ever, the private sector needs to help prevent terrorism financing.' Threat environments and technology evolve too fast for sclerotic bureaucracies to take on these challenges alone. For example, Indian intelligence officials now indicate that terrorist groups with a presence in India are increasingly using more sophisticated and legitimate financial instruments such as real estate, securities and the stock market to raise and move funds in and out of the country. Recognizing that money is essential to terrorism, Indian bankers are sitting on the front lines of a battle that promises to continue through the foreseeable future.

To help neutralise the threat, the first step in any successful CTF strategy is two-fold. First, compliance officers need to raise their awareness of the threat environment. Which groups are known to be active in a given region? Which groups have sympathizers or supporters in the area? What signatures' or patterns of funding methods do these groups tend to have? What are some possible terrorist financing scenarios? Where can one obtain this kind of information/intelligence quickly in the event that one does not already have it? These are a few questions that every compliance officer in India should be able to answer to ensure situational awareness.

The second component involves assessing threat and risk. The compliance officer should think creatively about the exploitable vulnerabilities regarding the parts of the system he oversees. In addition, the officer should be cognizant of the

relative probability of the vulnerability being exploited and the consequences. With regard to situational awareness, the geographic source of India's inward remittances is useful. North American and Persian Gulf countries represent two-thirds of India's total inward remittances. The Liberation Tigers of Tamil Eelam (LTTE) source a considerable portion of their

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funds from Canada and the United States. The Tigers often funnel the money through Tamil communities in India, especially in Tamil Nadu and Mumbai, where the Tigers have a significant presence. The Sikh separatist movement, Babbar Khalsa

International, is yet another example of an active group whose funding enters India from a diaspora community based primarily in the west. With regard to remittances from Arab Gulf states such as the United Arab Emirates, Jihadist groups funded from supporters in Pakistan and Saudi Arabia are known to use Dubai to transfer funds into India for attacks.

If the terrorists use good tradecraft, these funds will probably blend in with the vast ocean of legitimate transfers. However, compliance officers can learn to detect certain recurring patterns that may indicate the illicit nature of the remittance. More art than science, gauging geographical factors, typologies and certain indicators, taken in sum, can be useful.

Take the LTTE for example. While its protracted terrorist and insurgent campaign takes place mostly in Sri Lanka, the Tigers' financing and procurement arms are known to be present and active in India. The southern state of Tamil Nadu, where approximately 65,000 Sri Lankan Tamils reside, is believed to be a strategic node in LTTE's sophisticated global financial structure. Funds raised in the west and elsewhere may be transferred through India before being converted into arms, cash or other forms of value and shipped to LTTE across the Palk Strait into the primary theatre of conflict.

What are some of LTTE's funding sources and how does it move money? Predominant funding sources include:

- Extortion from the 600-800,000 Sri Lankan Tamil diaspora raised and transferred through umbrella of charitable fronts,
- Legitimate businesses such as telecommunications, restaurants, real estate, factories,

- Illicit businesses such as credit card fraud, arms, narcotics and human trafficking.

However critical it is to identify these sources and typologies in-depth, this alone is not enough.

In addition to focusing on funding patterns, the crux of any effective CTF programme is to know your customer (KYC), and your customer's customer; in essence, mapping the associated risk of all known individuals, organisations and businesses within a network. Only by identifying the people and organisations that represent associated terrorist risk will the financial community be able to adequately address the threats faced. For example, LTTE is known to move its money institutionally through charitable fronts and Hindu temples that it controls. In addition to raising and moving money, these institutional fronts serve the dual-purpose of housing, employing or recruiting LTTE cadre or close associates of LTTE cadre. If LTTE influence over an institution wanes or is dissolved by law enforcement, the managers involved tend to liquidate and open shop under a new name. Therefore, a critical component of any effective CTF strategy is keeping a close watch on the people and organisations that constitute a terrorist group's infrastructure.

### Scenarios

As previously mentioned, creative thinking about how terrorists could exploit vulnerabilities in the system is needed. How could the Tigers use inward remittances to move terrorist funds? Here are a few scenarios you need to be ready for:

- First, the Tigers, having acquired funds through the above criminal activities, seek affluent Indian nationals living abroad, who have a

long history of sending funds to family inside India. They then, upon threat of physical harm to either the Indian expatriate or his family within India, force him to send their illicit cash to the relatives, or through a front recipient living in India.

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- Alternatively, the LTTE, or overseas Tamils under its influence, forms a bogus charity, and that short-lived charity (possibly unregistered) sends funds to its 'home office' in India, from which it is quietly and quickly transferred to a location where it can be used to purchase weapons and ammunition.
- Another possibility is that they locate ethnic Tamils abroad who have family living within India, and they arrange for those individuals to send purported 'remittances' to their relatives, but the Tigers' representatives are controlling the recipients, and all such transfers flow directly to the Tigers.

### Conclusion

All these examples demonstrate that Indian financial institutions must not

be complacent with the regulatory regimes put in place. Instead, compliance officers need to remain proactive in adopting a risk-based approach to help neutralise the threat of terrorist financing. A robust KYC programme is the bedrock of this approach, coupled with effective situational awareness of the threat environment and the active terrorist groups present in India.

Therefore, set up a programme at your bank that will alert you to any inward remittances of dubious origin, such as large payments to a charitable entity in India, which has no history of humanitarian activities. Create 'red flags' of terrorist financing indicators for terrorist groups active in your region. Be on the lookout for abnormal changes in transaction sizes, unusual or suspicious activity, and transactions inconsistent with inward remittance activity. Train your staff to recognise these indicia. Above all, be alert for a major increase in any inward remittances that are then transferred out immediately after receipt.

We trust that this has sensitised you to the possibility that terrorist funds may be flowing through your bank. Conduct an internal compliance audit to confirm that they are not already there.

### About the Authors

**Kenneth Rijock** is a financial crime consultant for World-Check and is believed to be the only compliance professional in North America who was formerly both a bank attorney and a career money launderer. His financial crime articles can be found daily on the World-Check website at: <http://www.world-check.com>.

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