

Written Statement submitted to the House of Commons Finance Committee hearings  
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Thank you very much indeed for the opportunity to provide this statement to the Committee. Unfortunately, I am unable to appear in person due to logistical and scheduling reasons. I do very much hope this statement, albeit brief, proves to be of some use. I will make a few points.

### **Best practices: The Risk-based Approach**

Let me begin with best practices and internationally accepted norms. Countries are often advised to adopt a risk-based approach, rather than a rule-based approach. This approach is embodied in the Financial Action Task Force (of which Canada is a member) as well as numerous other international bodies such as the IMF and UN. The FATF 40+9 recommendations on terrorist financing for instance recognize that a one-size fits all approach based on overarching rules has limitations due to individual countries' particular contexts as well as enforcement capabilities, not to mention the costs entailed. As a result, 'countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk. This flexibility allows for a more efficient use of resources, as banks, countries and competent authorities can decide on the most effective way to mitigate the money laundering / terrorist financing risks they have identified'.<sup>1</sup>

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<sup>1</sup> Keynote Speech by FATF Vice-President Je-Yoon SHIN, 10 March 2015, Tokyo, Japan

## **Cost**

This brings me to my next point. What is the cost-benefit analysis involved in regulating terrorist financing? Are the resources devoted to this justified, given the risks and scale of the problem involved? Academic experts unsurprisingly have mixed views on this. On the one hand, reducing access to funding can limit the devastation of attacks launched. One example is how the 1993 truck bombing of the NY World Trade Centre was of smaller scale than planned because of lack of funding. Running out of funds also meant the terrorists had to rush their attack. Financial intelligence also helps provide insights into terror groups and their networks. Curtailing access to funding can increase the difficulties of successful attacks. Al Qaeda leaders have in the past also publicly announced that lack of funding was hurting their training and recruitment. Intercepted private communications between leaders and groups also highlighted the same point. On the other hand, it does not cost a lot to launch attacks. While the 9/11 attacks supposedly cost upwards of half a million US dollars, the 2004 Madrid bombings by contrast cost an estimated 60K according to some analysts (supposedly funded by selling hashish, ecstasy and fake holy water). More recent terror incidents such as the Charlie Hebdo attacks in France or the shootings in Ottawa do not require large amounts of money.

## **Targeting the right sector?**

Another related point here is that the anti-terrorist financing approach has focused largely on the 'formal' banking sector, real estate and money changers until recently. While there has been greater attention towards the more informal methods of money remittance such as the well-known 'hawala' system, the modus operandi of terror groups is vast, wide-ranging and constantly evolves. How can regulators keep up? There have been suggestions that selling bootleg illegal DVDs and CDs and Playstation video games is another mode of terrorist financing. Terrorist groups are also known to launch online fund-raising appeals through social media as well as their subscription-only TV stations. The dramatic rise of IS through the use of social media suggests this is one key sector that cannot be overlooked in terms of fund-raising. More recently, there are concerns raised over terrorists using stored-value cards, and *mobile* payments through smartphones to transfer funds.

### **Frequency and economic impact: Involve stakeholders and whole-of society approach**

Regulatory agencies realize that the frontline, day-to-day regulation of terrorist financing has to involve the stakeholders who deal with financial transactions daily. The difficulty is in spotting what could be a terrorist transaction from the thousands of otherwise innocuous transactions that occur every day. In the 'formal' banking sector, this involves the banks, banking staff more accurately, and other relevant industry bodies such as banking associations or remittance companies. The idea is to instill and inculcate a culture of incorporating anti-terrorist financing awareness and methods into daily routines and keeping track of the evolving financing threat. In financial hubs like Singapore, there have been outreach activities such as seminars jointly launched by the Monetary Authority of Singapore with banking associations and individual banks in order to raise awareness as well as inform those in the frontlines of latest developments and trends in terrorist financing. In terms of government involvement, there should be an inter-agency, whole-of-government approach since the terrorist finance issue usually transcends departmental boundaries. However, there is a danger that greater awareness might also mean more enthusiasm to spot 'suspicious' transactions that might well be unfounded. The costs of investigating such transactions that are flagged could mount, not only in terms of manpower and time but also in reputational terms of disrupting the overall flow of transactions globally. Ultimately, the challenge is to strike a balance and adopt a 'sieve' strategy where somehow legitimate financial transactions are still facilitated smoothly, while identifying and removing those related to terrorist financing. Then there are a whole range of other issues relating to the more 'informal' sector such as hawala. This method is one of the ways in which immigrants can send legitimately earned money home to their families and regulators have to recognize this important function it provides. How to regulate quickly developing technologies such as mobile payments is another area of discussion. With that, I end my brief statement and would welcome questions or comments by email