

18 - Terrorist Financing Vulnerabilities

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Sector rating

| Sector | Previous overall risk rating | Current overall risk rating |
|---------------------|------------------------------|-----------------------------|
| Terrorist financing | MEDIUM | LOW |

Existing inherent risks

This year's risk assessment builds upon the previous one relating to the current terrorist financing vulnerabilities the gambling industry faces.

There is a change in the overall risk rating relating to terrorist financing in Great Britain's gambling industry. This is due to evidence the Commission is aware of to support the change in risk levels (including HM Treasury's National Risk Assessment which was published in December 2020).

For further information on the inherent risks (including consequences and controls), see our 2019 publication: [Money laundering and terrorist financing risk assessment within the British gambling industry: 2019 \(PDF\)](#).

| Vulnerability | Risk | Sector | Previous likelihood of event occurring | Previous impact of event occurring | Current likelihood of event occurring | Current impact of event occurring | Change in risk |
|------------------|---|--------|--|------------------------------------|---------------------------------------|-----------------------------------|----------------|
| Operator Control | Operators failing to understand or take consideration of terrorist financing vulnerabilities and applicable legislation | All | LOW | HIGH | LOW | MEDIUM | Decrease |

Additional inherent risks

The risk levels and typologies relating to terrorist financing differ in comparison to Money Laundering (ML). For this reason, even though some of the below risks (such as pre-paid cards and cryptoasset transactions) are high for ML purposes, they have been rated lower in relation to Terrorist Financing (TF).

As discussed previously, criminals and terrorists have changed the way they operate to take advantage of the vulnerabilities that have emerged as a result of COVID-19. The current situation has seen an increase in the use of pre-paid cards, mule accounts and cryptoassets being used for ML purposes. For further information, see the Commission's website. However, these risks can be transferrable in relation to TF and the United Nations has warned that terrorist groups may see opportunities for increased TF activity while government attention is focused on COVID-19 [29](#). However, the known risks within the UK for gambling and TF remains low as demonstrated within HM Treasury current National Risk Assessment.

Cash transactions

It is well known that terrorist financiers use mechanisms such as bulk cash smuggling to move money [30](#). Even though the pandemic has seen a restriction in cash movements, it is still vital that gambling businesses remain curious and be alert to large cash transactions. This has been rated low risk currently.

Money service businesses

It has been recognised that terrorist financiers have used different channels to move funds and assets including using money service businesses (MSBs). [31](#). However, due to current limited evidence levels for this typology in gambling this has been given a low risk rating.

Pre-paid cards

'Smurfing' (using pre-paid cards) has been known to be used to fund terrorist activities. Here OCGs and those supporting terrorism can employ people ('smurfs') to purchase pre-paid cards which are then loaded with illicit money. Such money can then be legalised through transfer to a bank account. The 'smurfs' are careful to deal with amounts below the legal monetary thresholds. This money can then be used to fund terrorism and other legitimate activities, for example gambling. Due to current limited evidence levels this has been given an overall low risk rating.

'Mule' accounts

Illicit funds can be transferred (either willingly or unwillingly), through a third party's bank account (known as a 'money mule') to break the audit trail of transactions. This can be used as a primary method of laundering criminal proceeds. As previously discussed, the

pandemic has seen an increase in mule account activity with criminals seeking to recruit money mules through social media to launder cash from human trafficking, terrorist financing or drug dealing. The Commission has become aware of instances where money from mule accounts have been used for gambling purposes. Whilst this has been given a high risk rating in relation to ML (where criminals have then laundered money through gambling activities), there is limited current evidence that mule account gambling activities have been used for TF purposes. Therefore, this has been given a low risk rating.

Cryptoasset transaction

There is evidence that some terrorist groups use cryptoassets for funding purposes ³². This digital currency is likely to be used due to lack of options for cashing out funds in or near conflict locations and the anonymity this product provides for individuals or groups ³³. Before the pandemic, there were reports of terrorist groups increasingly using cryptoassets for funding purposes. The pandemic has also reported increases in the use of cryptoasset transactions in South Asia to fund terrorist-related activity. Whilst there is currently limited evidence that the use of cryptoassets for terrorist financing purposes in the UK is widespread, gambling businesses are reminded not to be complacent in fulfilling their legal duties to report suspicion or knowledge of terrorist financing to the UKFIU under the [Terrorism Act 2000 \(opens in new tab\)](#).

Charities and terrorist financing

The abuse of charities for terrorist financing is a well-known methodology and can occur in the following ways ³⁴:

1. abusing charity assets
2. infiltration by members of terrorist groups within organisations
3. cash and asset exchange within conflict zones from the charity
4. misusing a charity name and status
5. setting up a charity for an illegal or improper purpose
6. inappropriate expressions of support by a trustee for a proscribed terrorist organisation or designated person or entity.

Lotteries are frequently associated with charities and may share board structures, aims and employees. They therefore need to ensure that they have strong governance arrangements, financial controls and risk management policies and procedures in place that fit their needs, and will better safeguard them against a range of potential abuse, including the financing of terrorism. Trustees must also consider and manage risks to the lotteries (whether operational, financial, or reputational) ensuring they exercise proper control over financial affairs

and keeping accurate records. Trustees must also ensure they and their charity comply with the law, including counter-terrorist financing law. Due to current evidence levels in this area for gambling, it has been given an overall low risk rating.

All of the above risk areas relating to terrorist financing highlights the importance of operators ensuring they conduct sufficient KYC checks along with Suspicious Activity Reports (SARs) submissions where there is knowledge or suspicion of terrorist financing and submitting Defence Against Terrorist Financing SARs (DATF) if operators suspect they have received, kept or transferred monetary sums associated with terrorism.

Domestic and international terrorism

Increase in right-wing terrorism

There is a growing threat of right-wing extremism in the UK. ³⁵ It has been reported that out of the six terror plots foiled by the UK intelligence agencies in 2019, half involved those on the far-right wing of extremism. It has been reported that far-right extremists are building international funding networks including funding from high risk geographical areas, which makes it even more vital for gambling businesses to ensure that they conduct sufficient checks on the origin of customer funds upon deposit and withdrawal and identify their customers.

International terrorism

International terrorism remains a dominant threat in the UK. However, there is limited current evidence that funding is entering the UK from hostile locations for attack planning.

Both of the above risk areas (right wing and international terrorism) have been given a low risk rating in relation to their impact on the gambling industry due to evidence levels.

Terrorism 'red flag' indicators

Some potential 'red flag' indicators that operators should be alert to, based on evidence reviewed regarding the risk of TF are:

1. a customer's income or expenditure which is inconsistent with their occupation
2. unusual or suspicious religious quotes, or single words/phrases relating to known terrorist ideology or known numerical associations to terrorism in financial transactions and customer details (social media 'handle', web chat, email addresses etc)
3. use of multiple foreign bank accounts to conduct transactions

4. unexpected large withdrawals or complete withdrawal of sums and sudden account closure
5. transactions are structured to avoid internal threshold or SAR reporting ('smurfing')
6. MSB usage, including indicators such as: multiple overseas geographical locations destination for transfers, use of third parties in the transaction chain, open loop for foreign exchange transactions i.e. deposits in one currency and requests to withdraw in a different currency and missing details on money transfers
7. accounts linked to pre-paid cards
8. customer IP address being used by other customers.

References

- 29 [United Nation's Secretary-General: Secretary-General's remarks to the Security Council on the Covid-19 Pandemic \(opens in new tab\)](#) (accessed 5th July 2020, updated 9th April 2020).
- 30 [Money Laundering and Terrorist Financing Awareness handbook for Tax Examiners and Tax Auditors \(PDF opens in new tab\)](#) OECD (2019).
- 31 [FATF Report: Terrorist Financing Risk Assessment Guidance July 2019 \(PDF opens in new tab\)](#) (accessed 5th July 2020, updated July 2019).
- 32 [FATF: Financing of Recruitment for Terrorist Financing Purposes \(opens in new tab\)](#) (updated January 2018, accessed March 2nd, 2020).
- 33 [Tom Keatinge, David Carlisle, Florence Keen: Virtual currencies and terrorist financing: assessing the risks and evaluating responses \(PDF opens in new tab\)](#) (updated June 4th 2018, accessed March 2nd, 2020).
- 34 [The Charity Commission for Northern Ireland: 'Controlling against terrorist financing and money laundering \(opens in new tab\)](#) (accessed 27th April 2020, updated 2014).
- 35 [GOV.UK: Factsheet: right-wing terrorism \(opens in new tab\)](#) (accessed 5th July 2020, updated 20th September 2019).