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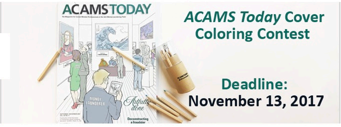

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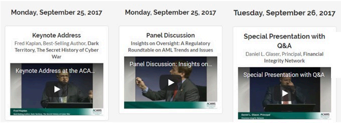
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AML CHALLENGES, JUNE - AUGUST 2014

Financial Institutions Personnel: On the Front Line in the Fight Against Human Trafficking

JUNE 3, 2014

The couple ran a costume jewelry business from their home in Meridian, Idaho, and maintained several accounts at the Meridian and Boise branches of two banks with a nation-wide presence. They wired money from those accounts to recipients in McAllen and Palmhurst, Texas, in amounts from $1,000 to $1,700. The husband subsequently made numerous deposits at bank branch locations scattered from Wyoming to Alabama. Back in Idaho, his wife withdrew the deposited money shortly after it was credited to one of their accounts.[1]

And there the money trail may well have ended but for the vigilance of bank personnel who reported the financial activity to the Financial Crimes Enforcement Network (FinCEN). After reviewing those reports, U.S. Immigration and Customs Enforcement's (ICE) Homeland Security Investigations (HSI) opened an initial inquiry — and soon found reason to dig deeper. An affidavit filed in federal court by an ICE HSI special agent details what the government learned and alleges; this account is derived from that affidavit.[2]

The husband and wife were in the country illegally, and the U.S. Border Patrol had arrested the husband and returned him to his native Mexico several times before. More alarmingly, the couple's wire transfers to Texas border communities, as well as to an account in California, were sent to known alien smugglers.[3]

Working with financial institutions' records and other sources, ICE HSI determined that the couple was paying smugglers to spirit Mexican nationals across the border. Once in the U.S., those illegal immigrants bought imitation gold jewelry from the husband, who then drove them around the country in a van, having them resell the jewelry in parking lots to repay the smugglers' fees, the cost

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LATEST POLL

What is your institution doing to ensure that the transaction monitoring program is properly of the jewelry, and the money the couple spent on them for food, lodging and other expenses.[4]

Special Agent Stephenie Lord Eisert, unit chief of the Illicit Finance and Proceeds of Crime Unit at ICE HSI, notes that the case underscores the central role of financial institutions' personnel in the fight against human trafficking (HT). "The SARs and other BSA-mandated reports that are filed are the lifeblood of our work when it comes to initiating or enlarging our investigative efforts," Lord noted in a recent interview with *ACAMS Today*.[5]

Table 1: Human Trafficking Incidents Opened for Investigation in the U.S. by Federally Funded Task Forces, January 2008 to June 2010

Type of Trafficking	Number*	Percent*
All incidents	2,515	100.0
Sex trafficking	2,065	82.1
Adult prostitution/commercial sex act	1,218	48.4
Prostitution or sexual exploitation of a child	1,016	40.4
Sexualized labor	142	5.6
Other	61	2.4
Labor trafficking	350	13.9
Commercial industry labor	132	5.2
Unregulated industry labor	230	9.1
Other	26	1.0
Other suspected trafficking	65	2.6
Unknown	172	6.8

* Numbers add to more than 2,515 and percentages add to more than 100 percent because incidents may involve more than one type of trafficking.

1. Source: Banks D and Kyckelhahn T. "Special Report: Characteristics of Suspected Human Trafficking Incidents, 2008 – 2010." NCJ233732. Bureau of Justice Statistics. Office of Justice Programs. U.S. Department of Justice. Accessed April 14, 2014 at http://www.bjs.gov/content/pub/pdf/cshti0810.pdf.

Red Flags of Potential Human Smuggling and Trafficking

ICE HSI has identified several financial activities and patterns that may indicate that an individual or business is involved with human smuggling or trafficking, and urges bank personnel and others to be aware of and report those red flags, which include:[6]

- Structured cash deposits to avoid currency transaction reports (CTRs), followed shortly thereafter by outgoing international wire transfers;
- Business bank accounts that lack typical business expenses, or account activity that does not relate to the business;
- Credit and debit processing for even dollar amounts, when such amounts are atypical for the type of business;
- Large cash deposits inconsistent with the type of business;
- Multiple accounts established for different businesses, but having persons with the same signatory powers on each account;

configured and aligned to the institution's ML/TF risk profile?

○ A) Establishing a well-defined risk assessment methodology

○ B) Updating the risk assessment on an annual basis and after a major event occurs

○ C) Mapping the areas with higher ML/TF inherent risks to scenarios and/or rules

○ D) Maintaining key performance indicators

SUBMIT View results

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SARS-N-STRIPS
WHAT AM I DOING? -- I HAVE TO BE VERY DIPLOMATIC SO I CAN FORGE ALLIANCES WITH ALL THE OTHER DEPARTMENTS.
Compliance Office
WHAT?? JUST WORK TO INTEGRATE COMPLIANCE WITH THEIR REVENUE AND DEVELOPMENT GOALS --
PRESENT A GOOD BUSINESS CASE....AND LOSE THAT PENGUIN SUIT!
CAN I KEEP THE MEDALS?
NO.
HOW ABOUT THE SASH?
NO.
THE HAT?
OK, BUT THAT'S ALL.

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- Use of electronic funds transfers from business accounts to pay for extravagant trips and the leasing of high-end luxury vehicles;
- Receipt of numerous incoming wire transfers or personal checks inconsistent with the account type;
- Wire transfers from one business account to the account of another business when the two entities have no apparent commercial relationship;
- Credit card payments to online escort services for advertising, including small posting fees to companies such as Craigslist, as well as to more expensive advertising and website hosting companies;
- Large payments to foreign companies that are inconsistent with the amount of product received from those companies;
- Sudden change in customer's normal business practices, such as a dramatic increase in deposits, withdrawals, or wealth;
- Deposit of checks written in even amounts and with seemingly non-applicable phrases written in the remarks or memo field;
- Structuring transactions at money services businesses (MSBs) (multiple financial transactions less than the $3,000 MSB reporting limit on the same day); and
- Customers who have reported identity theft, as many criminal enterprises use stolen identify to facilitate their activities.

"Human trafficking, at its core, is a business," notes Manhattan District Attorney Cyrus R. Vance, Jr., who has made the crime a priority for his office. "Like other businesses, it leaves a financial paper trail that can be tracked and used to identify trafficking networks," says Vance, who in April 2013 partnered with Monique Villa, CEO of the London-based Thomson Reuters Foundation, to convene an international working group on financial aspects of HT.[7]

Taking a global focus, the working group included representatives from non-governmental organizations (NGOs) and financial-services companies, including American Express, Bank of America, Barclays, Citigroup, JPMorgan Chase & Co., TD Bank, Wells Fargo and Western Union. In January of 2014, the group issued a white paper designed to provide financial institutions around the world with guidance on how to identify and report financial transactions that may be indicative of HT.[8]

Villa, the CEO of the Thomson Reuters Foundation, told ACAMS Today that the red flags cited in the confidential paper include "funds from the employees' accounts going back to the employer (indicative of labor trafficking), recurrent business transactions taking place outside the time of known business operations, cross-border transfers of funds that are inconsistent with the stated business purpose of the financial institution's customer, and others that cannot be disclosed for security reasons. If we want to stand a chance to weaken the traffickers, it is essential that the world's major financial institutions are on board."[9]

Human Trafficking by the Numbers

As with any illegal activity, it is exceedingly difficult to quantify the scope of HT, but the United Nations Office on Drugs and Crime (UNDOC) estimated in 2012 that HT generates $32 billion annually and ensnares approximately 2.4 million victims worldwide at any one time.[10,11]

In several of its recent annual reports on Trafficking in Persons, the U.S. Department of State (DoS) has estimated that between 600,000 and 900,000 people are trafficked across international borders each year.[12] In 2003, the DoS estimated that 18,000 to 20,000 foreign nationals are trafficked into the U.S. each year, while a federal report the next year put that figure at 14,500 to 17,500.[13,14] The government has not issued more-recent estimates, and it is important to note that those numbers pertain only to foreign nationals brought into the U.S., not to U.S. citizens or residents who are trafficked within the country.

Statistics on investigations and prosecutions provide hard numbers, but, of course, it is impossible to know what percentage of overall trafficking incidents these cases represent. In Fiscal Year (FY) 2012, the Department of Justice (DOJ) reported that its affiliated task force conducted 753 investigations into HT-related cases, down from more than 900 investigations in FY 2011, while ICE HSI, which is part of the Department of Homeland Security (DHS), reported investigating 894 cases possibly involving HT, up from 722 cases the prior year.[15]

Federal prosecutors secured convictions against 138 traffickers in FY 2012, versus 151 convictions the prior fiscal year. One hundred and five of the convictions in FY 2012 predominantly involved sex trafficking, while labor trafficking was the predominant offense in the other 33 cases.[16]

A DOJ review of suspected HT incidents from 2008 through mid-2010 found that over the course of 30 months, federally funded task forces opened investigations into 2,515 suspected incidents. Thirty percent of the incidents that were opened for at least one year, or roughly 750 cases, were confirmed to be HT, while 38 percent were confirmed not to be trafficking, and 32 percent remained opened at the end of the study period.[17]

Among 389 incidents confirmed to be HT for which extensive data were available, the report found that:[18]

- 62 percent of the labor trafficking victims were age 25 or older, compared to 13 percent of the sex trafficking victims.
- Sex trafficking victims were more likely to be black (40 percent) or white (26 percent), compared to labor trafficking victims, who were more likely to be Hispanic (63 percent) or Asian (17 percent).
- 83 percent of sex trafficking victims were U.S. citizens, while 67 percent of labor trafficking victims were undocumented aliens and 27 percent were qualified aliens.

Meanwhile, the Polaris Project, a Washington, D.C.-based non-profit organization dedicated to combating HT, reports that from December 2007 to December 2012, its National Human Trafficking Resource Center (NHTRC) received reports of 9,298 unique cases of HT emerging from more than 72,000 calls, emails and submissions of its online tip form.[19]

The Power of Partnership

ICE HSI emphasizes the importance of a law enforcement-financial industry partnership against HS and HT. The agency's Cornerstone initiative conducts investigations into a wide array of financial crimes, including HT and smuggling, while its Project STAMP (Smugglers' and Traffickers' Assets, Monies, and Proceeds) is dedicated to combating transnational criminal organizations (TCOs) involved in those activities by following the money trails they create.

Launched in 2010, Project STAMP is an initiative in which, "HSI collaborates with its private sector partners to evaluate how [transnational criminal] organizations use the financial sector domestically and abroad to collect payment for illegal services and share these methods with the financial community to shut down exploitable vulnerabilities."[20]

Lord noted that, "Over the next year, we will be sitting down with members of the banking industry and larger financial community and sharing with them the most recent typologies and financial flows we've identified. We will be providing greater detail than we ever have before."[21]

In advance of those meetings, Lord and Special Agent Michael S. Tutko, section chief of ICE HSI's Human Smuggling and Trafficking Unit, emphasized to ACAMS Today that it is important for financial industry personnel to appreciate the distinction between human smuggling and HT, and to be aware of trends and factors associated with each.[22]

Tutko explained that smuggling involves bringing people into the U.S. in violation of immigration laws, and also can entail harboring aliens once they are in the country and transporting them within the U.S. Trafficking, meanwhile, involves exploitation of people, whether they are foreign nationals brought into the U.S. for that purpose or already live here as citizens or resident aliens. Most trafficking is characterized as either sex trafficking or labor trafficking. Sex trafficking involves the use of force, coercion, or fraud to induce an adult to engage in commercial sex acts, or transporting a minor into the country or within the country to work in the sex trade. Labor trafficking, meanwhile, entails the use of fraud, force, or coercion to induce a person to work in involuntary servitude, peonage, debt bondage or conditions that could be considered slavery.[23]

Lord noted that, "In the past, smugglers typically would hold people in stash houses near the point at which they had entered the U.S. until the smuggling debt was satisfied. As a result, a lot of the financial transactions indicative of smuggling involved MSBs or banks in Texas, Arizona and Southern California. Now we are seeing more of a national footprint. The aliens are moved to their ultimate destinations within the U.S., and from those locations, anonymous cash deposits are made at the counter of the local branch of a bank that has locations across the country. An intermediary for the smuggler then withdraws the money from the domiciled account elsewhere in the U.S."[24]

The ICE HSI special agent added that interstate funnel accounts that facilitate this approach are receiving increased scrutiny from federal law-enforcement agents, and she praised financial institutions for working to combat the use of such accounts for criminal purposes. As an example, she noted that JPMorgan Chase is barring counter deposits from individuals not pre-identified as being associated with a particular account.[25]

The ICE HSI agents also observed that while human smuggling and trafficking can involve aliens from anywhere in the world, many recent cases have centered around people brought into the U.S. from Mexico and elsewhere in Central America, as well as South Asia and East Asia.[26] Similarly, government agencies and non-profit organizations combating trafficking note that while a wide variety of industries can provide cover for the crime, businesses that may warrant particular vigilance include nail salons, massage parlors, strip clubs, travel agencies, services that recruit and place nannies and other household workers, and entities that employ farm workers and other manual laborers.[27,28]

Lord added that it was important that people working in banks and other financial-services companies not underestimate the importance of their contributions to the fight against trafficking. "I understand that bank personnel often wonder what happens after they have filed a report, if their effort really makes a difference. If there is one thing I could convey, it is that every single SAR gets reviewed. We have teams dedicated to that effort. In some cases, an investigation is initiated because of one specific SAR or because several reports associated with an individual or business accumulate and suggest a pattern of activity. In other cases, an investigation is initiated for some other reason, and we draw on the reports as part of the investigation. But regardless of whether the reports prompt us to open an investigation, or contribute to one already under way, they are critical to the successes we have had in combating human trafficking and other crimes."[29]

How You Can Partner with ICE HSI to Combat Human Trafficking

As part of its effort to partner with the financial community in fighting human trafficking (HT), the U.S. Immigration and Customs Enforcement (ICE) Homeland Security Investigations (HSI) invites banks and other financial-services companies to participate in its Cornerstone program in several ways, including:

1. **Partner** — Become a private sector partner by contacting the local HSI Special Agent in Charge (SAC) office to schedule a Cornerstone presentation for your company or organization;
2. **Report** — Report suspicious commercial or trade activity by contacting your local HSI SAC office or by calling 1-66-DHS-2-ICE; and,
3. **Subscribe** — Sign up to receive HSI's quarterly newsletter, The Cornerstone Report, to stay current on new developments in financial and trade fraud crimes. You can sign up for the newsletter at **http://www.ice.gov/cornerstone/**.

Tom Garry, CAMS, member of ACAMS Editorial Task Force, president of Exponent Communications, Hawthorne, NJ, USA, ***thomasmgarry@gmail.com***

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29. ACAMS Today telephone interview with U.S. Immigration and Customs Enforcement Special Agents Stephenie Lord Eisert and Michael S. Tutko, April 11, 2014.

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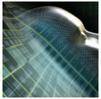

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