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Human Trafficking and Banking: What Compliance Officers Need to Know

Human trafficking is a global crisis that has an impact on lives around the globe. Over time, there have been many initiatives taken by governments and nonprofits to identify and help victims while promoting enhanced visibility and awareness of the crime itself. The banking sector has been a part of this process, as financial institutions, through money laundering, inadvertently remain exposed to transactions that constitute the proceeds from this act. As a result, they must be on high alert to protect the financial system by taking steps to identify, report, and combat this illicit activity.

Financial Institutions and Human Trafficking

Financial institutions have an obligation to file suspicious activity reports (SARs) on a range of suspicious transactions. Historically, there has been a greater focus on reporting anti-money laundering and terrorist financing (AML/CFT) activity through SARs. However, the list of reportable suspicious activities has evolved over time and now covers many other financial crimes, including human trafficking and human smuggling, both of which violate of federal and international laws.

The U.S. Financial Crimes Enforcement Network (FinCEN) has published two guidance documents to help financial institutions detect and report suspicious financial activity that may be related to human smuggling and/or human trafficking, providing examples of red flags to watch for and detailed information on the need for financial institutions to identify and report these instances in SARs. According to estimates cited by FinCEN, human trafficking worldwide generates $150 billion annually. Appropriate identification and reporting of this crime not only protect the integrity of the financial system against this type of money laundering, but it also can save lives and help identify those who commit these crimes.

Complying with the guidelines to detect and report activity pertaining to this crime helps financial institutions and compliance departments to:

- Operate within the regulatory framework.
- Keep reputational risks at a minimum.
- Help save lives and expose culprits.

Staying Vigilant

Financial institutions and compliance teams can help all staff members to remain alert to human trafficking red flags by doing the following.

- **Understand compliance's responsibility.** Compliance professionals are often pulled in different directions, addressing different investigations or issues that arise. As a result, it is critical that compliance teams are provided the resources to examine and take the appropriate reporting action with each instance of suspicious activity.
- **Provide training and tools to all staff members, from front-line employees to back-office compliance professionals.**
    - Deliver training sessions focusing on human trafficking risks and the red flags of such activity. These sessions can be incorporated within the AML training framework and can be conducted by subject-matter experts within the institution or by involving industry-recognized third parties.
    - Staff should also be provided continuing professional education. This can be accomplished through in-house training, as well as by exploring other resources that can provide additional tools to tackle these investigations. Such resources are offered by government agencies, such as FinCEN, FATF, U.S. Homeland Security, and U.S. State Department, as well as by nonprofits focused on mitigating human

trafficking, such as Polaris Project and The Anti-Human Trafficking Intelligence Initiative.

- **Remain diligent during all processes.** In addition to scrutinizing information and providing diligence during the onboarding, Know Your Customer (KYC), and Customer Identification Program (CIP) processes, financial institutions can conduct ongoing monitoring and periodic reviews to identify unusual trends and segue from customer's disclosed activities.
- **Ensure proper reporting.**
  - From August 2018 through December 2019, the Treasury Department received 6,672 SARs related to human trafficking. Ensuring these types of suspicions are reported correctly is critical, both internally through reviews and escalations, and externally, through SARs.
  - Ensure compliance professionals understand the appropriate terminology and are following Treasury Department guidance on filing comprehensive SARs to report human trafficking, including checking the right box to indicate this suspicion and providing all available information in the narrative.
- **Leverage technology to help streamline red flags.** New technologies and solutions can help maintain and/or create the rules associated with key red flags and thresholds. Incorporating rules such as high-risk locations and industries, currency amounts, and patterns will enhance detection ability. With compliance teams regularly facing resource and bandwidth challenges, technology can be embraced to help support this critical mission.

Summary

There are many available resources to help financial institutions and compliance professionals to continue to take strides in the fight against money laundering, including those related to human trafficking. By leveraging new and existing tools, providing more training, and staying up to date on both the latest red flags and advisories, compliance teams can serve as the front line for their financial institutions and play an active role in identifying and exposing human trafficking.