Human Trafficking
How financial institutions can fight back
Tackling the scourge of human trafficking

There are few crimes more heinous than human trafficking. The UN estimates that 30 million people live under conditions of slavery today, with many sold into sexual exploitation, forced labour, organ removal and forced marriage. It’s also one of the 22 predicate anti-money laundering (AML) offences outlined in the EU’s Directive on combating money laundering. That means financial institutions must do what they can to detect and notify the authorities of any transactional behaviour linked to human trafficking.

Unfortunately, they are severely hampered in these efforts by a lack of visibility into the performance of existing tools. This is where the new FinCrime Testing Service from BAE Systems Applied Intelligence comes in.

This groundbreaking new technology simulates human trafficking behavioural data to allow banks to test the effectiveness of their existing rules-and make improvements going forward.

This paper explains the AML challenges facing financial institutions today, how the FinCrime Testing Service helps financial institutions address these challenges, and how you can get involved and benefit from this new technology.

Shining a light on money laundering

It is sometimes easy to forget the human cost associated with money laundering. Shifting funds around the world is a somewhat technical, dispassionate process. Yet the crimes that generate this wealth are the cause of much human misery. This includes not only the 30 million souls forced into slavery and trafficked around the world, but countless others victims of organised crime, terrorism, drug trafficking and other offences.

It’s also a problem shrouded in opacity because of our lack of insight into it. The UN estimates that annual money laundering globally is worth between 2 and 5% of GDP. That could be anywhere from $2.8 trillion to $7.1 trillion, according to 2019 figures. In 2012, it estimated that less than 1% of “global illicit financial flows are currently seized and frozen”. These figures have yet to be credibly challenged or updated.
A technology challenge

Fundamentally, financial institutions really struggle to detect the actual suspicious behaviours indicative of these types of criminal activities. When asked, for a recent BAE Systems report, how hard it is for them to uncover evidence of human trafficking through financial transactions, over three-fifths (61%) of global banks said it was “somewhat” or “extremely” difficult, rising to 71% in the US. Over two fifths (43%) said they need better technology as part of their five-year strategy to combat money laundering, whilst more than one in 10 (14%) admitted they still do not even have an AML strategy in place.6

Part of the problem is the lack of insight institutions have into the crimes themselves and the effectiveness of how their tools are working. From our research, we can say that banks have:

- No clear articulation of the criminal activities they should be detecting
- No approved method to test how good their systems are at detecting criminal activities and demonstrate this to regulators
- No cost effective or consistent way to prioritise and measure the impact of any changes to their AML systems

This is a major financial and reputational issue for banks. Not only have the expectations of increasingly ethically minded customers risen over recent years, but regulators also demand that effective controls are put in place, with major penalties for non-compliance. UK and US regulators accounted for 30% of the $8.14 billion total handed out in fines globally in 2019, which itself was more than double the 2018 figure.7

At the same time, an estimated $181 billion is spent by financial institutions on compliance each year.8 It’s clear that these organisations need a way to understand how effective they actually are at detection and how to improve it cost effectively.
Introducing the BAE SYSTEMS FinCrime Testing Service

Against this backdrop, BAE Systems Applied Intelligence enlisted the help of its Futures team, a venture incubator building internal start-ups within the company. The resulting FinCrime Testing Service simulates human trafficking behaviour into data, and then uses that data to test the effectiveness of customer AML systems.

It works in four key stages:

**Typology Store**

BAE Systems researches the predicate offences to money laundering and articulates relevant criminal typologies. The key here is the quality, relevance and recency of the jurisdiction-specific financial crime threat intelligence that is researched. The result is a trove of threat intelligence detailing criminal methods and how they interact with the financial system.

**Data Simulation**

The FinCrime Testing Service produces synthetic customer and transaction data that contains simulated criminal and victim behaviours indicative of different scenarios within each typology, for injection into the customer’s AML detection system.

**Test Execution**

Customers test their AML detection systems against our simulated financial crime typology data to see which alerts are generated and in which combination against each typology scenario.

**Detection Reports**

The FinCrime Testing Service processes the outputs of the tests to create detailed reports which:

- Quantifies how effective customers’ AML systems are at detecting these criminal typologies;
- Recommends actions for improving the efficiency and effectiveness of detection.
Ground-breaking benefits

The **FinCrime Testing Service** calculates four detection effectiveness metrics from the wealth of information produced in each typology test and details them in the report. Banks using them have for the first time been able to:

- Spot where and how they are missing human trafficking activities
- Quantify how well each of their detection rules are working, in a completely new way
- Use the results to compare generic rules that generate large volumes of false positives, with more targeted rules customised to spot human trafficking activity
- Identify and quantify potential rule changes to improve detection performance

How your organisation can get involved

We are offering the two key aspects of the FinCrime Testing Service independently:

**FinCrime Threat Intelligence**
Our threat intelligence reports articulate the financial crime typologies themselves that banks should detect, accessible via a portal.

**FinCrime Tests**
These typologies turned into synthetic data relevant for your institution, used to test the detection effectiveness of your AML systems and generate a detailed report setting this out and recommending opportunities for improvement.

To date we have focused on detailing typologies within human trafficking, such as human trafficking for sexual exploitation and human trafficking for labour exploitation, and over time we will extend coverage to a broad range of predicate offences. We will continue to expand and update our typology knowledge factoring in views and requests from our customers, and over time we will extend coverage to all 22 predicate AML offences named in the EU’s 6AMLD.

To see what the FinCrime Testing Service could do for your AML strategy, please get in touch with us today.

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Find out more.

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We employ a skilled workforce of 82,500 people in over 40 countries. Working with customers and local partners, our products and services deliver military capability, protect people and national security, and keep critical information and infrastructure secure.

Appendix

1 World Day against Human Trafficking spotlights essential role of first responders UN News (30 July 2020)
3 Money-Laundering and Globalization UN (accessed 2 September 2020)
4 Global gross domestic product (GDP) at current prices from 2009 to 2021 Statista (3 June 2020)
5 Estimating Illicit Financial Flows Resulting from Drug Trafficking and Other Transnational Organized Crimes UNODC (October 2011)
6 The global state of anti-money laundering BAE Systems (accessed 1 December 2020)
7 US and UK regulators take lead on AML fines for 2019 Ruby Hinchliffe, Fintech Futures (14 January 2020)
8 Overcome global financial crime compliance obstacles LexisNexis (accessed 1 December 2020)