

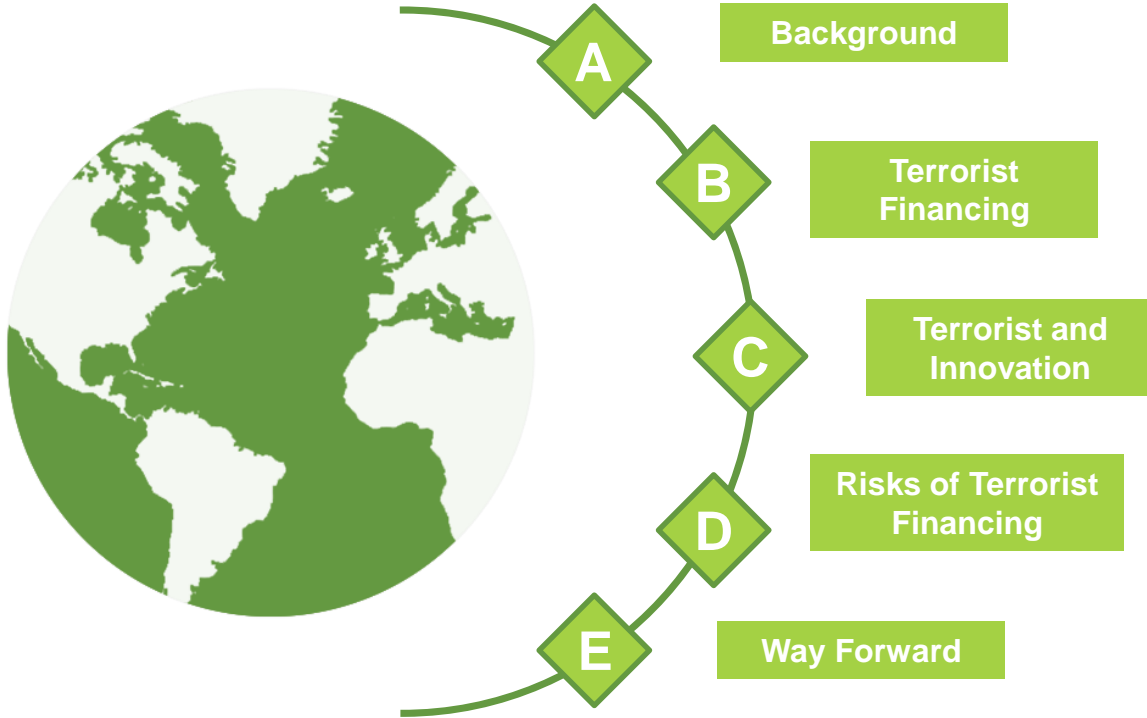


THE RISKS OF EXPLOITING VIRTUAL CURRENCIES IN TERRORIST FINANCING OPERATIONS

**DR. SONNY ZULHUDA
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA**

<http://sonnyzulhuda.com>

Agenda





Terrorists Get Sophisticated

The use of financial resources by terrorists or for terrorists activities gets more sophisticated due to the **more ubiquitous Internet**, the **big data** and **innovations** in payment systems.

The Cost of Innovations

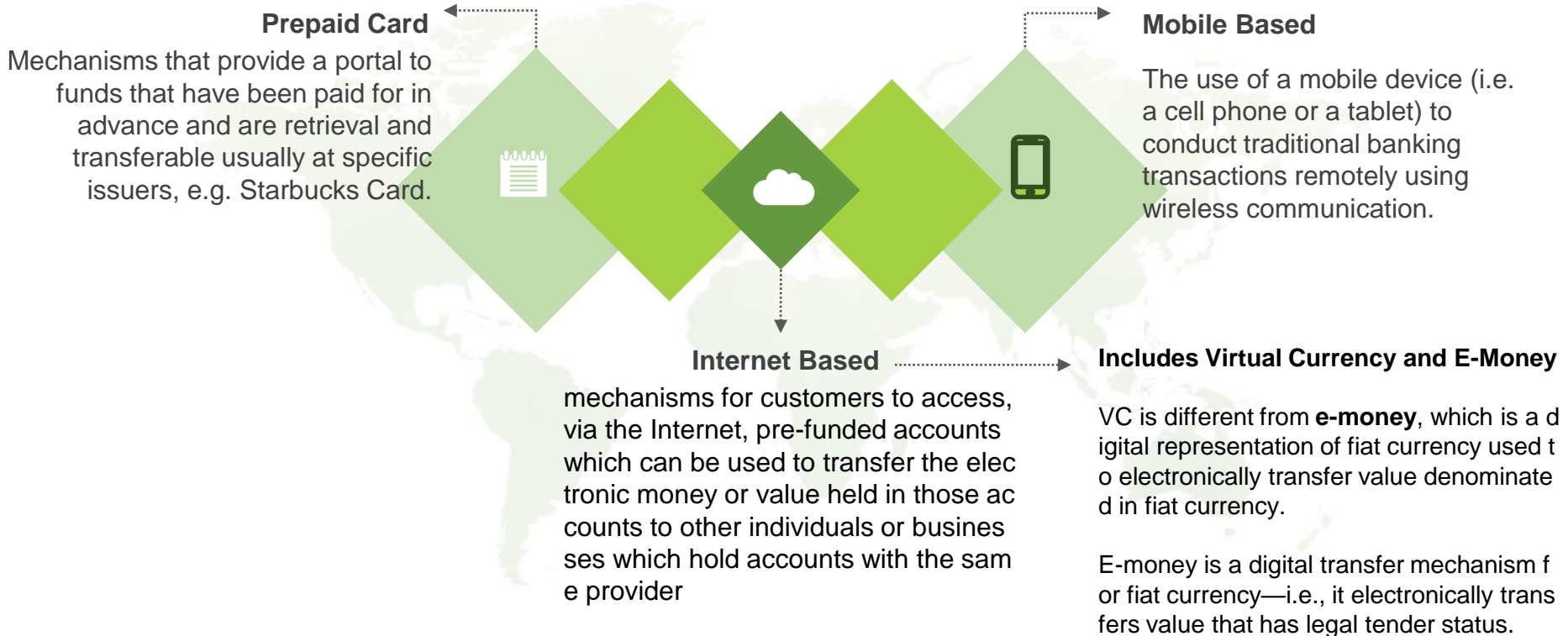
Innovations including card-based, mobile-based and Internet based. **Virtual currencies** (VC) is one type of Internet-based payment system. It brings both hopes and threats.



The Promises and Threats

It **promises** wider reach while provides a **powerful tool for criminals, terrorist financiers and other sanctions evaders** to move and store illicit funds, out of the reach of law enforcement and other authorities..

New Payment Products and System



Virtual Currencies

Virtual currency is a digital representation of value that can be digitally traded and functions as (1) A medium of exchange; (2) A unit of account; (3) A store of value. Examples: Bitcoin; LiteCoin; and Ripple



Legitimacy Risk

VCs are not recognised as a legal tender in major jurisdictions, they are largely based on contractual agreements between the users and providers. Problem if there is no balance of contractual bargaining power.



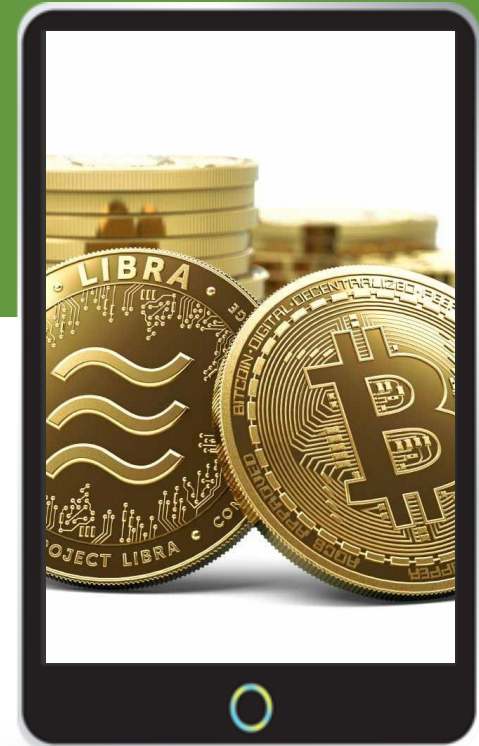
Anonymity Risk

VC allows the users to conceal their identities. The relationship is non-face to face and is usually anonymous. This enables fraudulent or abusive conduct to go unchecked or untraced.



Decentralisation Risk

Popular VCs are traded without central system providers. Thus, there is no central oversight body. Therefore, it makes it difficult for the law enforcement and oversight body to monitor.



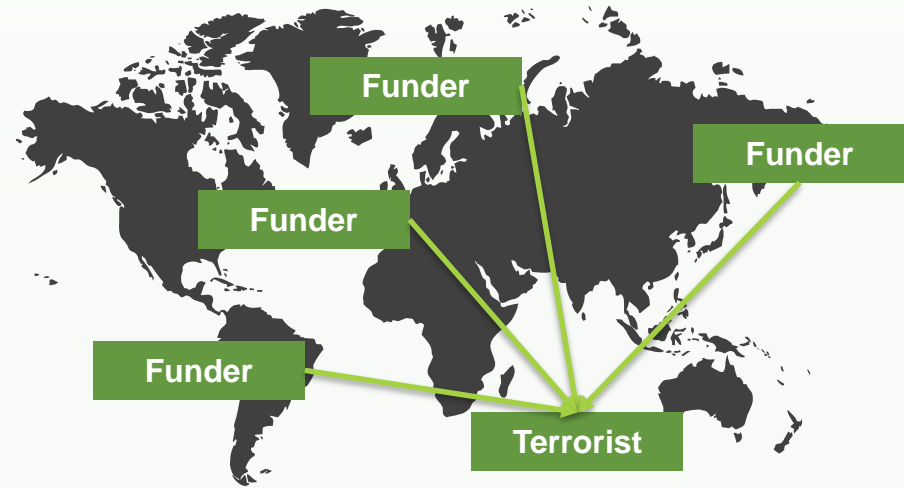
Terrorist Financing



Terrorist financing **provides funds** for terrorist activity. It may involve both legitimate and illegal sources.

Legitimate includes personal donations and profits from businesses and charitable organizations.

Illegal sources: drug trade, the smuggling of weapons and other goods, fraud, kidnapping and extortion, etc.



Terrorists use techniques **to evade authorities' attention** and **to protect the identity of their sponsors** and of the ultimate **beneficiaries** of the funds. When terrorists raise funds from legitimate sources, the detection and tracking of these funds becomes more difficult.

This **“legitimate” method includes:** Formal banking system; Informal value-transfer systems, eg Hawalas and Hundis; and Physical transportation of cash, gold and other valuables through smuggling routes.

Risks of Terrorist Exploitation

Terrorists may go unidentified

VCs allow greater anonymity than traditional noncash payment methods. This is **a desirable vehicle** for those with illicit activities including terrorism

Hidden funding sources

Permit **anonymous funding and donations** (do not properly identify the funding source). Therefore not only it is good for moneylaunderers, terrorists will use them too

Exploitation of the Internet

Virtual currency systems operates by **involving lots of role**: administrators, miners, exchangers, users, or wallet providers. This ubiquity makes the tracing and enforcement **more complicated**.

Anonymous transaction

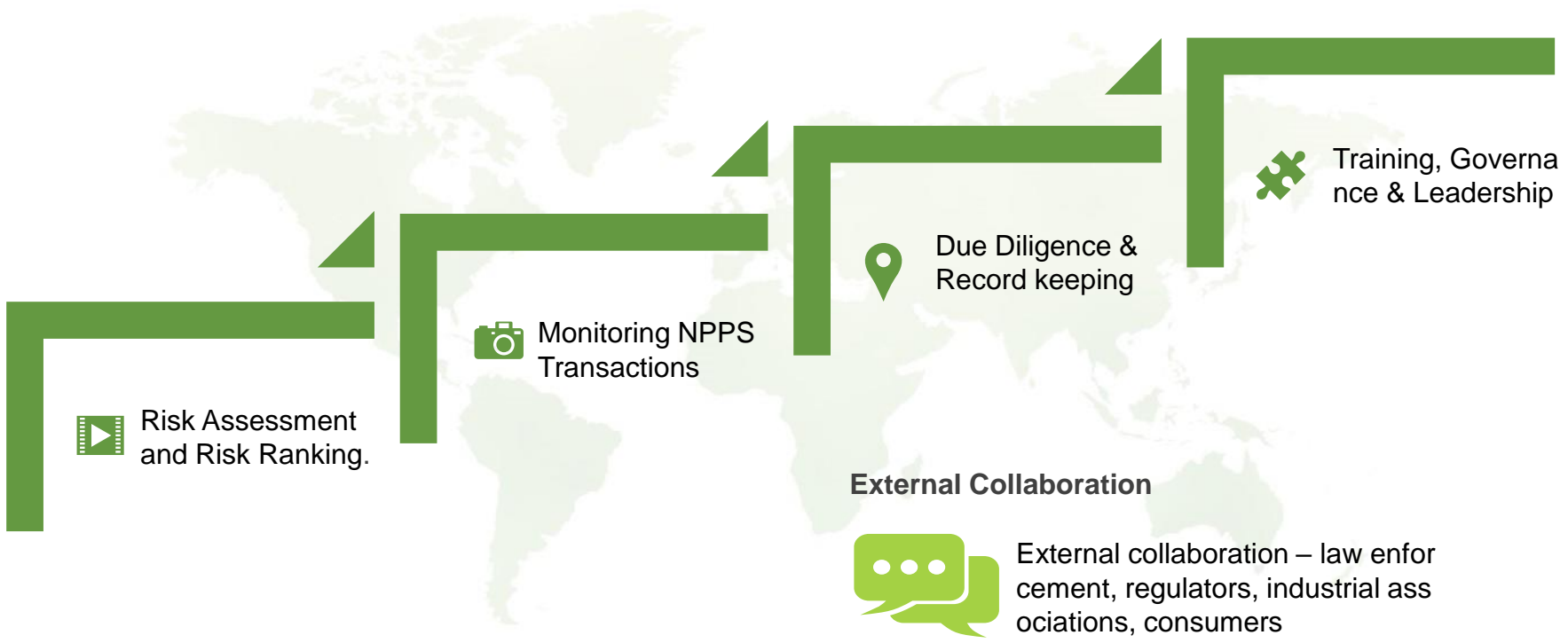
Generally, VCs exchange allows a **non-face-to-face customer relationships**. This method + the use of **Dark Web** is an ideal combination which makes it hard for oversight and investigation

Unregulated transaction

Permit decentralized transactions, therefore **not subjecting them to specific jurisdictions** and oversight authorities.



Risks Mitigation



Lessons Learnt

Illicit Uses of Virtual Currencies in the past



In this part we can learn hard lessons from the incidents in the past on how virtual currencies had been exploited for illegal, illicit or illegitimate usage.





Thank You

Dr. Sonny Zulhuda
sonny@iium.edu.my