

FINANCIAL INTELLIGENCE UNITS AND THE ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM SYSTEM

A new work model: Systemic,
Expanded and Bidirectional (SEB)

UIAF DOCUMENTS





Financial intelligence units and the anti-money laundering and countering the financing of terrorism system

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A new work model: Systemic, Expanded
and Bidirectional (SEB)

“Knowing reality means constructing systems of transformations that correspond, more or less adequately, to reality” (Jean Piaget, Swiss epistemologist and developmental psychologist, 1896-1980).

INTRODUCTION¹

Twenty-two years ago, in Colombia the foundations were established to build, formally, a national system to fight money laundering, a crime that despite its lengthy historical precedents, in the 1980s became a public and a State concern as a result of the surge in the trafficking of illicit drugs and the large profits and adverse consequences that since then, this threat has generated.

The national system, made up of public and private institutions that perform specific roles under the framework of the national legislation – which in some respects is the first of its kind – derives from the evolution of international standards defined by intergovernmental groups and international organizations, dedicated to directing global financial policy and, more widely so, economic policy.

From this perspective, international policies, initially conceived to contain the expansion of money laundering derived from drug trafficking, focused on the protection of the banking system, which at that moment in time was highly vulnerable, given the economic

¹ With gratitude toward all UIAF officials who, at different times, have contributed to the conceptualization, design, application and growth of the Systemic, Expanded and Bidirectional (SEB) work model, especially the Under Director of Strategic Analysis from 2011 to present; thanks also to the Under Director of Analysis of Operations from 2012 to present for his feedback on the document and new contributions to the model; finally, thanks to the Unit's Legal and Communications advisors who provided their conceptual and editorial support to the document.

openings generated by globalization and the tendency to reduce controls in order to facilitate the free flow of assets and capital.

With the advent of a new wave of organized crime, which used to its advantage the opportunities generated by this global economic setting, among other causes, the international trend veered toward an increase in regulations aiming at curtailing the advancement of this type of crime by blocking the entry of its financial gains into the legal economy.

This document traces the history of that evolution, particularly from the perspective of the fight against money laundering (AML), by reviewing and analyzing its main milestones and generally drawing a profile of the international AML system, its adaptation and application at the national level, in order to propose areas of improvement and explain how Financial Intelligence Units can play an important role in that respect.

It must be noted, however, that since the September 11, 2001 attacks on the World Trade Center in New York, in the international stra-

tegy against money laundering, containment measures against the crime of **financing of terrorism (FT)**² were also incorporated, given that the structures and channels employed for the former crime have also been used to mobilize assets to support organizations designated as terrorists. Thus, this document will discuss in general terms what is since known as the anti-money laundering and countering the financing of terrorism (AML/CFT) international system.

In this context, ever since November 2010, the Financial Information and Analysis Unit (UIAF, for its Spanish language acronym) of Colombia has argued that the effectiveness of the AML/CFT system depends on the coordination among its parts (in reference to its members) and their ability to adapt in order to protect new economic sectors, where organized crime has migrated to or where there is a risk that it will settle itself or become associated with other **criminal manifestations**.³

For the UIAF, fulfilling the objective previously noted implies that Financial Intelligence Units (FIUs) in general ought to assume a proac-

² The term terrorism has multiple interpretations and political connotations. This document, which is based on a historical review of the fight against criminal finances in order to develop its main argument, will not discuss the concept in depth, given that doing so deserves a particular analysis, which is beyond the scope of this text.

³ This phenomenon is known as "criminal convergence," meaning the association among groups that identify with different ideologies and/or purposes, yet engage with each other and generate alliances in pursuit of a common goal, mainly an economic one.

tive role within the system, making use of their strategic position as collectors, centralizers and transmitters of Financial Intelligence information, in line with their money laundering and **terrorism financing**⁴ prevention and detection duties.

With this vision, the UIAF designed and implemented a Systemic, Expanded and Bidirectional (SEB) work model, which consists of seeking and facilitating the integration and coordination among the different parts of Colombia's national AML/CFT system, using as support methods the expansion in sources of information and regulated economic sectors; feedback as the basis for a bidirectional dialogue among the parties in the system; and the pursuit of solid inter-institutional alliances in order to produce knowledge and ever more accurate and useful Strategic and Operational Intelligence.

As such, in the first two chapters, this document offers a historical review of the creation of the international and national AML/CFT systems. It then focuses, in the last two chapters, on presenting and supporting the SEB work mo-

del and its results, thereby documenting what the model is about and its contribution to the results achieved by Colombia's national AML/CFT system over the past four years.

This experience will demonstrate that Financial Intelligence Units can play a leadership role as articulators of the systems to which they belong, being capable of obtaining effective results.

⁴ The Financial Action Task Force (Fatf-Gafi), principal organization in anti-money laundering policies, from the year 2001 incorporated into its initial 40 anti-money laundering recommendations, special measures against the financing of terrorism, consequently highlighting the urgency to confront terrorism by attacking its sources of income and sustainability. One of the recommendations grants FIUs the new responsibility to prevent, detect and communicate to the competent authorities the operations that potentially relate to the financing of terrorist groups.



01

HISTORICAL CONTEXT

OF THE ANTI-MONEY LAUNDERING SYSTEM

Most criminals are motivated by their eagerness to obtain an economic profit. As a result, illegally obtained funds often enter and integrate into the legitimate economic circuit. Thus, the success of organized crime depends, to a great extent, on its ability to disguise, camouflage, simulate, hide and transform the proceeds of its activities. This recycling process imposes on State agencies, responsible for prosecuting and neutralizing the structures of criminal power, the challenge of identifying and confiscating these resources.

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Money laundering, as the process described above, is a medium for distancing criminal activities from their proceeds. Consequently, by hiding the illicit origin of their income, criminals hinder the State's ability to confiscate their assets, which in turn benefits the criminal, who, despite potentially being subject to a prison sentence, could enjoy and invest those assets, for example, in the payment of bribes in order to obstruct the justice system.

During the decade of the 1970s, the forms and structures for laun-

dering illicitly obtained money were incipient in comparison to the complex formulas of financial engineering and business holdings that have been developing up to the present day. In particular, at the end of the 1980s, the problem acquired global connotations, leading to the surge of an international model to contain the transnationalization of this crime.

Such effort, initially aimed at protecting the financial system, took off from initiatives by multilateral organizations, namely the United Nations, the Organization of American States, the European Community and, decisively, the Financial Action Task Force (Fatf-Gafi, created in the year 1989).

Nonetheless, at the time there was no consistent treatment of money laundering as a threat to National Security, nor was the trend toward the convergence of organized transnational crime, criminal bands, terrorist groups and mafias, yet in sight. Even less so were discussions taking place on money laundering's socioeconomic impacts via distortions that affect national development policies on employment, housing, health and

infrastructure, among other social wellbeing issues.

1

Historical background of money laundering

Money laundering is not a new affair. On the contrary, it dates back to the time when the coin was first created, finding traces in different cultures and civilizations. As an example, 30 centuries ago Chinese merchants hid their money by transferring it outside their jurisdiction and converting it into real estate property with inflated prices; roman senators of the Republic Era used slaves as figureheads in order to camouflage through them the gains produced from commercial activities; similarly, during the Middle Ages, merchants and bankers engaged in different operations in order to disguise the proceeds derived from illegal loaning (Carbonari 2005: 15, 16 and 17).

Some studies indicate that the concept of money laundering begins in the year 1920 with organized crime in the United States, a time when mafia bosses created industrial laundromats and carwashes in order to commingle licit and illicit money derived from clandestine gaming, prostitution and alcohol trafficking. These businesses would serve as a channel for illicit resources, giving way to the symbolic concept of laundering dirty money (Warde 2007: 36).

More recently, developed countries began to treat money laundering as a criminal offense, placing their attention on illicit drugs and the large amounts of money being deposited in U.S. banks as a result of its trade. From the time of the first judicial sentences (1982), anti-money laundering measures in the financial sector developed and strengthened particularly during the George H.W. Bush and Bill Clinton administrations in the United States.

2

Characterization of the problem

As a criminal phenomenon, money laundering had its start in the sophisticated and professional hiding and recycling of vast volumes of profits derived from crimes committed by complex transnational power structures (dedicated to drug, arms and/or human trafficking, corruption and extortion) that have taken advantage of the international trade system to insert their illicit portfolio into the legitimate economy and generate a fictitious veneer of legality.

The fight against money laundering, a crime of a complex legal structure, involves tracing and uncovering money in diverse economic segments, as well as detection, investigation and prosecution across geographical borders. Currently, it represents a major

challenge due to the legal and illegal opportunities raised by globalization, technology and regional integration, facilitating the trafficking of humans, commodities and services. Given the above and considering the extreme harm this crime causes on the democratic and economic health of all States, it is unquestionable that it merits a differentiated criminal policy treatment.

Even in these times of entrenched international political commitments and police collaboration to confront cross-border threats, and despite existing legal and technological capacities at the service of authorities, organized criminal networks and their finances represent with greater vehemence a National Security problem, demonstrating their ability to control and coopt entire states, threaten peace and security, violate human rights and hamper the economic, social, cultural, political and civil progress of societies worldwide.

With these precedents, since before the 1990s, the international community envisioned that money laundering, given the difficulties in its containment and its increas-

gly expansionist tendency, demanded that countries agree on a set of minimum standards, the creation of institutions, homogenous legal tools and a decisive cooperation and information exchange on the intelligence and judicial fronts, in order to suppress the crime effectively.

3

Emergence of the international anti-money laundering system

In the last decades, money laundering has emerged as one of the criminal manifestations that has sparked more attention from governments worldwide, given the initial concern in containing the vast amounts of cash generated by the illicit traffic in narcotic drugs and psychotropic substances, and of protecting the integrity and reputation of banks.

The above, together with the uncontrolled flight of capital and tax evasion, the hiding of great anonymous fortunes in tax heavens, the sophistication of the techniques employed to launder illicit resources and the low levels of detection and confiscation, triggered a series of measures that, in greater or lower magnitude, were defined by different international organizations and countries.

Governments and multilateral economic organizations, such as the Organization for Economic Co-operation and Development (Oecd) and the Basel Committee on Banking Supervision, opened discussion forums and committed themselves to implementing administrative and legal measures to deal with the significant quantities of money and financial assets that moved, uncontrolled, through diverse economic systems and jurisdictions.

Afterward, other more damaging repercussions to collective and public interests became apparent, associated to Defense and National Security issues, macroeconomic and fiscal distortions, convergence of criminal structures, institutional

decay, strengthening of other illegal manifestations such as corruption and terrorism, interferences to fair competition, criminal monopolies, and the abuse of democratic mechanisms.

Since the year 1988 when the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances was passed, urging countries for the first time to typify money laundering as a crime, the international community has advanced more or less in concert in its determination to establish institutions, groups, instruments, control mechanisms, risk management, regulation and supervision standards, as well as sanctions and other pressures to block the advancement of money launderers across jurisdictions. These steps, essentially, aim at closing legal loopholes that generate impunity and preventing the intercrossing of licit and illicit economies.

A review of this intricate AML/CFT system indicates that (i) it is a transnational structure, which begins with the implementation of controls on the banking sector, that later transfer to other econo-

mic sectors, (ii) that international standards are flexible and can be implemented in countries with diverse legal and economic systems, and (iii) that the measures applicable to money laundering can be adjusted and applied to curtail other crimes, facilitated by the existence already of certain legal and institutional capabilities.

Therefore, based on the above, it is understandable why anti-money laundering measures have also been applied to block and intercept [resources for the support of terrorism](#)⁵; thus, since the year 2001, blocking its funds became a focus of the strategy emanating from different multilateral organizations. At the Financial Action Task Force (Fatf-Gafi), the standard recommendations against money laundering would become the 40 Recommendations on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). In compliance with these, many national governments amended (and continue to amend) their domestic regulations in order to confront terrorism and organized transnational crime by pursuing their assets.

⁵ One of the main differences between both crimes is that while the sources to finance terrorism can be legitimate or illegitimate, the sources of laundered assets are always illicit.

4

National adoption of the international standards

Colombia, following its tradition of international cooperation, its place as a signatory member of the United Nations and the challenges it faces with drug trafficking and the contagion risk that the money derived from this activity can cause to the economy and its concentrated banking sector, was receptive from the beginning to the international standards and made use of the government's political will and the support of its financial sector to adopt the measures laid out by the international community.

The country began a long journey of adopting the instruments and standards to combat money laundering, through *Decree 1872 of 1992*, which elevated, at the level of an enacted law, the principles and procedures that had been the center of a self-regulatory agreement

by the financial sector to comply with the principles of Basel.

In 1993, through *Act 67*, it ratified the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988). With this step, Colombia embarked on a swift process of creating institutions, criminal types, administrative compliance and oversight controls, *asset forfeiture regulations*⁶, investigation and judicial cooperation techniques, which to this day have not slowed down in their evolution. As evidence of the above, the following milestones are noted:

With *Decree 663 of 1993*⁷, the National Government set forth the first administrative measures destined to support the financial sector in preventing money laundering and collaborating with the corresponding authorities. Upon this foundation, the Banking and Securities regulatory authorities (today The Financial Superintendence of Colombia), through numerous administrative directives, instituted what was deemed the Integral System for the Prevention of Money Laundering (Sipla, for its Spanish acronym), which in 2007 evolved

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⁶ Act 1708 of 2014, Article 15: "Asset forfeiture is the patrimonial consequence of illicit activities or which gravely deteriorate social moral, consisting in the declaration of entitlement in favor of the State over assets which are referred to in the law, by judicial decree, without reparation nor compensation of any nature for the affected."

⁷ Organic Statute of the Financial System.

to a Risk Management System of Money Laundering and Financing of Terrorism (Sarlaft, for its Spanish acronym), the first in the region.

In 1995, through *Act 190*⁸, mandatory suspicious transaction reports (STR) from the banking sector to the Attorney General's Office were imposed and it was determined that the Banking and Securities Superintendences should assign to one of their departments the duty to control money laundering operations. That same year, with *Decree 950*, the Inter-institutional Coordination Commission for the Control of Money Laundering (Cicla, for its Spanish acronym) was created as an advisory body to the National Government on anti-money laundering policy. In 1996, the first law on asset forfeiture was enacted, marking a precedent worldwide.

For the first time in Colombia, money laundering was typified as a crime in the year 1997. Through *Act 526 of 1999*, the Special Administrative Unit of Financial Information and Analysis (UIAF, for its Spanish acronym) was created as the country's *Financial Intelligence Unit*⁹. Afterward, in 2006 (*Act 1121*), the UIAF

was bestowed with the authority to prevent and detect the crime of terrorism financing as well. Finally, in 2013, through *Statutory Act 1621*, the Unit joined the State's Intelligence and Counterintelligence community.

As it can be observed, over the past two decades Colombia laid down the legal basis for a holistic, institutional structure that has been built to prevent, detect, investigate, prosecute and cooperate internationally in order to contain the threat that emanates from the dirty money of organized crime.

5

Financial Intelligence Units (FIUs)

These Units derive initially from the need to have institutions capable of centralizing, processing, analyzing and communicating to law enforcement agencies the rele-

⁸ First Anticorruption Statute.

⁹ The Act sets forth that the purpose of the UIAF is to detect, prevent and in general fight against money laundering in all its economic activities.

vant information for combating the crime of money laundering (IMF and World Bank 2004: 13). These Units emerge independently in the early 1990s¹⁰ and have since proliferated, currently reaching at least 146 worldwide.

From this perspective, FIUs are an important product of international standards, specifically the 40 Recommendations of the Financial Action Task Force (Fatf-Gafi)¹¹, the Model Statute of the Inter American Commission against the Abuse of Drugs (Cicad – Organization of American States) and the Egmont Group's¹² recommendations.

In the words of Martin Barbero (2004),

Financial Intelligence Units make up the vanguard of a new security concept that increasingly places more emphasis on the financial aspects of criminal investigations and recognizes as essential, in the formulation of tactical and strategic objectives, taking into account experts' opinion concerning the probable destiny of the product of the criminal activity.

FIUs initially emerge because in the course of the global strategy to fight against this common problem, the necessity to create a bridge between the financial system and judicial authorities is envisioned. These Units articulate, interact and perform their tasks of prevention and detection based on the collection of economic, financial, statistical, commercial and institutional information, among others. One of their most important functions is to enrich information with analysis, in order to convert it into useful Intelligence for judicial authorities.



¹⁰ For example, the United States' Financial Crimes Enforcement Network (FinCen) was created in the year 1990, making it one of the first FIUs in the world.

¹¹ The Fatf-Gafi's Recommendation 29 determines that: "Countries should establish a financial intelligence unit (FIU) that serves as a national centre for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities, and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly."

¹² The Egmont Group is the body that gathers most of the financial intelligence units in the world. It was created in 1995 with the objective of fomenting and facilitating international cooperation, particularly the exchange of financial intelligence information and knowledge among FIUs.



FINANCIAL INTELLIGENCE AND THE ANTI-MONEY LAUNDERING SYSTEM

Financial Intelligence: Scope

The generic concept of State “Intelligence” encompasses various subspecies, mainly: political (internal and external), psychosocial, military (operational and tactical), strategic (geographic, sociological, economic and scientific) and financial.

States require intelligence services or bodies that have the capacity to envision future scenarios and propose possible alternatives for governmental decisions. These Intelligence bodies must have the operational, technological and human capabilities to identify and prevent criminal threats to public safety and/or economic and social order.

In this context, the UIAF’s Financial Intelligence, protected by legal

confidentiality, consists of centralizing, analyzing and disseminating information to the corresponding authorities. Its role fully subsumes into the concept of “Intelligence,” as contributed by the Constitutional Court’s jurisprudence:¹³

(1) “It concerns the activities of collection, gathering, classification and circulation of relevant information for the fulfillment of objectives related to the security of the State and its citizens...”

(2) “The purpose of these activities and of the information which has been referred to is to prevent, control and neutralize situations that endanger such legitimate interests...”

(3) “Inherent to these activities is the element of confidentiality or secrecy of the information collected...”

(4) “...intelligence and counter intelligence information is normally collected and circulated without the knowledge, much less the consent, of the people it concerns.”

The power conferred by law to the UIAF to lift banking, tax, securities

¹³ Constitutional Court Sentence C-913 of 2010.

and exchange secrecy, among others, without violating the constitutional right to an **Honorable Name, Habeas Data and personal privacy**¹⁴, is justified by the damage that ML/TF crimes inflict on the economy and public safety, warranting the strict confidentiality that the Unit must apply to the information it holds.

In contrast to other entities that perform other types of Intelligence, Colombia's UIAF does not require judicial authorization to request information, given that it is about financial and trade operations and transactions and not about particular people.

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2

Diagnosis of the system¹⁵ and its needs

Colombia's anti-money laundering system is segmented into four main areas (prevention, detection, investigation and prosecution) and

integrated by various agents (reporting entities, supervisors, FIUs, Intelligence agencies, judicial police and prosecutors).

Specifically, the supervisors regulate, oversee and impose administrative compliance measures so that its regulated subjects prevent and report possible laundering operations; FIUs receive, seek and centralize information to conduct Financial Intelligence and communicate their findings to the corresponding prosecutors (or other authorities, per each country's legislation); and prosecutors, assisted by their judicial police, collect evidence and file accusations before criminal judges, seeking either convictions or asset forfeiture over goods of illicit origin or destination.

Likewise, each agent is part of one of the aforementioned areas and each one has a defined purpose. Reporting entities and their supervisors are in the prevention phase, the former by reporting suspicions of illicit money attempting to gain access into a given economic activity and, the latter, by setting out the guidelines to manage, measure and control risk properly. The UIAF actively participates in detection

¹⁴ Article 15 of Colombia's Political Constitution.

¹⁵ In its most basic definition, a system is a module organized into interrelated parts that interact among them. There is an entry, "input," followed by an interaction among agents and an exit, "output."

and prevention, as well as supports the investigation of these types of conducts. Finally, prosecutors and judicial police are responsible for initiating the criminal process and both constitute the accusatory party during the trial.

The system has traditionally operated in one direction as a circuit that is fed from the only entry of information it has, namely the one provided by reporting entities; but, with the handicap that the state system to fight against money laundering becomes dependent on the information private actors within the system voluntarily choose to report as suspicious. Thus, there is a risk that the State only receives information limited to the interests of those who report.

To advance from a one directional to a bidirectional model, it is imperative that the information flow be non-linear and that FIUs have the legal power to request information in order to activate a [feedback](#)¹⁶ route that enriches all parties. As a result, one of the main causes for the inefficiency of the system – the isolated actions of its actors – is addressed and corrected by helping to generate a unified vision among

them and thereby facilitate their coordination.

FIUs must take a proactive role as an articulator, have initiative, work together with supervisors, provide feedback to reporting entities and, within their legal possibilities, assist prosecutors in the development of investigations, validating the information obtained by judicial police bodies.

In parallel, in order to produce operational and strategic knowledge, the FIU must have the legal capacity to request information from different sources, including data and analysis produced by other national and foreign Intelligence organizations. With timely and quality information, the FIU can propose legal improvements, widen the detection radar, draw an image of the threat and, most importantly, neutralize volumes of illicit assets.

Through this set of actions, countries will dispose of efficient institutions that overpower criminal economies and not, costly, labyrinth-type structures that represent disproportional expenses compared to the results obtained.

¹⁶ Feedback in the context of the SEB model consists of sharing lessons learned, identifying good practices and acquiring a better understanding of the information received and disseminated, always within the legal frameworks that govern the parties.





03

**THE UIAF'S
PROACTIVE APPROACH
AND SEB MODEL**

Based on the diagnosis previously discussed, the UIAF designed and implemented a **Systemic, Expanded and Bidirectional work model**¹⁷, with the aim of promoting and facilitating a more efficient articulation among all the actors involved in the chain of prevention, detection, investigation and prosecution of money laundering and countering the financing of terrorism. With this model, founded on the pursuit of strategic knowledge through applied investigation, dialogue and inter-institutional cooperation, the UIAF has sought a more effective and meaningful system in favor of social wellbeing.

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The model's components

Systemic

Actors operate under a common strategy and policy, based on the articulation of actions, definition of

roles, regulatory coherence and the principle of specialization.

Expanded

Visibility angles and prevention capabilities expand by incorporating new sources of information, developing new public-private alliances, increasing the areas of strategic investigation and proposing adequate AML/CFT regulation for vulnerable economic sectors.

Bidirectional

There is dynamic, inter-institutional dialogue. The information has a defined point of entry and exit in the system and follows a defined route consistent with each area within the system. However, at various points that involve different parts of the system, the information becomes enriched and transformed, through feedback, into aggregated knowledge for each, some or of all the parts.

Implementing the SEB model does not require a new system. On the contrary, it allows for a better synchronization and articulation among the institutions that comprise it; likewise, it bestows on FIUs the ability to mobilize the

¹⁷ To learn more about the history of the SEB model, refer to Suárez Soto, Luis Edmundo (2011). "The New Approach of the Information and Financial Analysis Unit – UIAF: Systemic, Expanded and Bidirectional Model – SEB." Bogotá, D.C: UIAF.

whole system toward the attainment of tangible results, given the interaction these Units have in all areas.

Lastly, this approach seeks to integrate citizens, reporting entities, academia, trade unions and the State. Its implementation does not require complex legal amendments – only vision, initiative and innovation.

The model's key variables are explained below:

1. Additional information sources and complementary analysis mechanisms

Traditionally, the financial, securities and insurance sectors have been the providers of information that enters the system. Other sources of information that have gradually joined come from **Designated Non-Financial Businesses and Professions (DNFBPs)**.¹⁸

In Colombia, control entities, trade unions, international organizations and academic centers provide information that is collected and analyzed by the Unit through technical work groups comprised of experts that

focus on applied investigation. This additional information enriches the production of strategic knowledge, enabling the development of macro and micro economic analysis, evaluating criminal trends and threats to security and identifying sectors at risk.

In addition to the above, citizens, other national and foreign Intelligence agencies and open source information, such as mainstream news, represent other valuable sources of information for the system; the first of these voluntarily report suspicious operations, the second provide Intelligence information in the framework of their legal duties and the last, through news stories, add context.

2. Upturn of protected sectors

The AML/CFT system was built to protect the integrity of the financial system, naturally making this sector the main information provider.

Nonetheless, due to the expansion of money laundering, other economic sectors have turned into reporting actors to the FIUs.

This process of generating information must run parallel to the

¹⁸ These are casinos, real estate agents, dealers in precious metals and dealers in precious stones, lawyers, notaries, other independent legal professionals and accountants, as well as trust and company service providers.

implementation of AML/CFT risk management and control measures that produce warning signs, enforce customer due diligence procedures, control the entry and exit of cash money and identify beneficiaries, among others.

In Colombia, the economy's real sector generates close to 80 percent of the Gross Domestic Product (GDP), while the financial sector generates the remaining 20 percent. As such, from the year 2011, the UIAF drew up a working map to protect more sectors and activities¹⁹ exposed to the permeation of illicit money or with the potential to channel resources for terrorism purposes.

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The necessary risk control measures are determined by assessing the vulnerability of an economic activity to being infiltrated by illicit money and the ensuing probability of impact and damage that such infiltration could cause on the economy in general.

3. Feedback

It constitutes one of the principal pillars of the proactive approach and the SEB model, creating a channel of dialogue that allows public and

private institutions to improve cooperation among themselves, by exchanging information, understanding their mutual needs and adequately articulating their actions.

One initial kind of feedback is the one provided by the UIAF to approximately 20,000 reporting entities, with the purpose of improving the quality of the information they submit. This constant effort helps FIUs and their reporting entities optimize time and resources used in the production of Intelligence.

This process consists of a detailed revision of Suspicious Transaction Reports (STRs) received by the UIAF, upon which a quality indicator is produced on the basis of specific criteria determined jointly with the reporting parties. The indicator evaluates whether the reports have led to the structuring of ML and/or TF cases. In overall terms, it consists of periodic processes, focused on identifying the strengths and weaknesses of STRs, in order to have grounds to improve the usefulness and effectiveness of the information.

¹⁹ Examples of those activities that must implement risk management systems and report information to the UIAF are private security companies, currency exchange houses, money transfer operators, soccer clubs, land freight companies, automobile dealerships, cooperatives and real estate companies, among others.

In parallel, there is an ongoing feedback between the UIAF and the supervising entities with regard to compliance by their supervisees in terms of the quality and periodicity of the reports they must submit. In the event of noncompliance, supervisees could incur administrative sanctions, a coercive element that serves as an incentive to abide by reporting regulations.

A second type of feedback is the one generated between the UIAF and the Attorney General's Office, the authority responsible for collecting evidence and initiating the criminal investigation and the asset forfeiture procedure, with the support of Financial Intelligence produced and transferred by the UIAF as guiding criteria. In this stage, the success of a solid legal investigation and the State's ability to seize and block illicit resources away from the reach of criminal organizations, depends greatly on the accuracy of the information and knowledge provided by the FIU, as well as the prosecutors' and judicial police's understanding of it and the possible ML/TF operations involved.

Under the SEB model, this synergy is carried out through technical work groups in which prosecutors, judicial police and UIAF analysts examine, expand and discuss the information obtained by both parties, marking a difference with the traditional method of submitting Intelligence information to the Attorney General's Office and the corresponding prosecutors, without providing the necessary support to understand it. This new level of dialogue, on the other hand, has contributed to the accuracy of the investigation carried out by the Attorney General's Office and guided the search for legal proof both locally and abroad, significantly reducing the time required for the criminal investigation, while strengthening its impact.

A third type of feedback is the one produced by the UIAF and the remaining actors within the system, especially those that joined under the SEB model. In particular, the cooperation and joint work with international organizations, academic centers and other Intelligence agencies, play a central role strategically and operationally.

Concerning cooperation among FIUs, information exchange is not

sufficient. On the contrary, to tackle organized crime, a close interaction in the creation of joint and focused Intelligence activities allows each country's judicial authorities to follow the cross border trail of illicit assets, uncovering their location and generating reciprocal assistance mechanisms for the exchange of evidence and the repatriation of seized assets. This process can be extended to other countries' administrative, military or police Intelligence agencies with the responsibility to combat money laundering and its predicate crimes, as well as terrorism and its financing.

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The partnership with research and knowledge-based centers and other international organizations leads to technological developments, economic and sectorial studies, generation of metrics and impact models, proposals for regulatory amendments, joint publications, exchanges of cumulative experience, internships, courses and trainings. Ultimately, society ought to benefit because there is an increase in the understanding of the problem thanks to the union of specialties.

It must be highlighted that the knowledge that emerges from the-

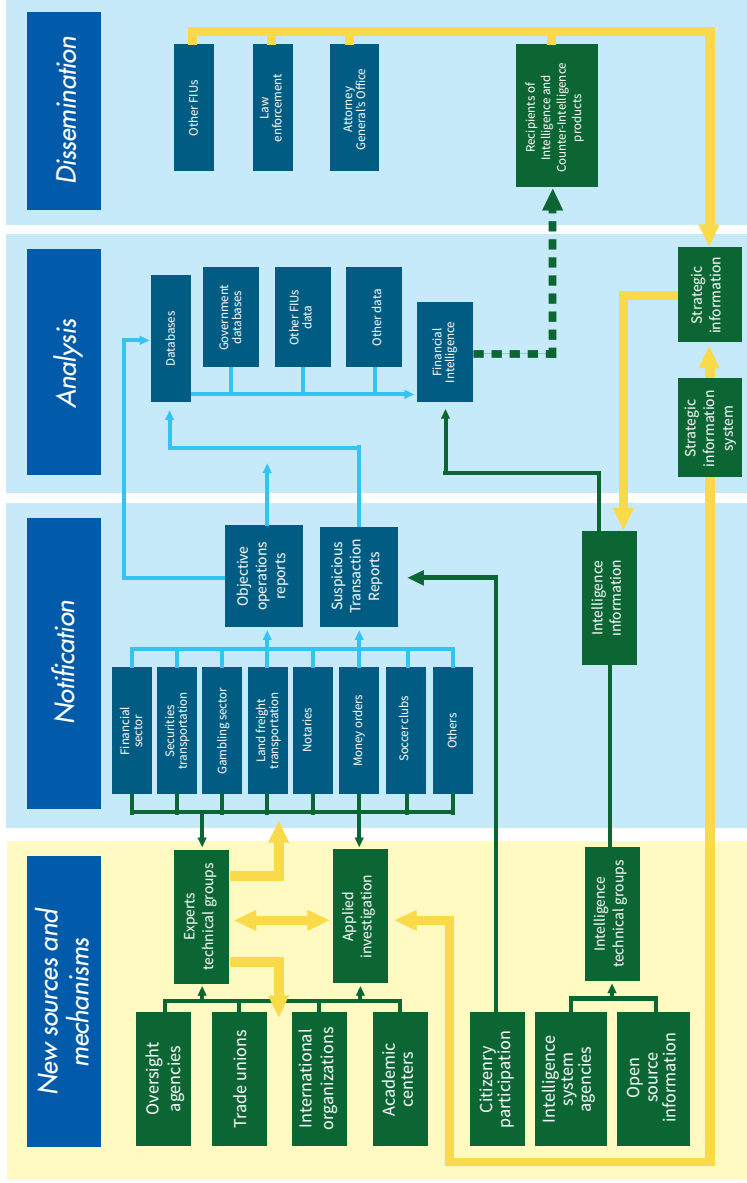
se mutual bidirectional processes contributes to the generation of culture surrounding the problem being confronted; it also guides public policy making and serves as a point of reference to measure the effectiveness of the system.

In summary, the expansion in the sources of information and analysis mechanisms, the increase of economic sectors subject to prevention and reporting measures and, finally, feedback, are the three essential components of the SEB model.

The following graph illustrates the workflow that characterizes the SEB model. The difference between the traditional model and the one designed and implemented by the UIAF is explained through different colors, **blue**²⁰ corresponding to the traditional model and green and yellow to the new.

²⁰ Although it is shown within the blue-colored area in the graph, securities transportation companies, land freight carriers, money transfer companies and soccer clubs, among others, belong to new reporting sectors to the UIAF, which is part of the expansion in coverage of the economy's real sector under the SEB model.

SYSTEMIC, EXPANDED AND BIDIRECTIONAL (SEB) MODEL



2

Secondary variables in the model

Other variables in the model:

1. Technological enhancement – new analysis tools

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The application of the SEB model is reinforced with technological strengthening. This is to say the acquisition and use of high-end **technology**²¹ that helps guarantee the safety of information and the adequate and timely processing of massive volumes of data that are constantly centralized by an FIU.

This type of technology will assist in the application of advancements such as Big Data, through business Intelligence tools and the discovery of knowledge in databases that use data and text mining techniques and social network analysis tools that contain a large number of possibilities concerning the finding of patterns, networks,

nods and other essential contents for the development of Financial and Economic Intelligence.

Consequently, the application of this technology contributes to the production of Strategic Economic Intelligence and to the structuring and understanding of Operational Intelligence cases, helping to increase Intelligence analysts' efficiency and efficacy.

2. Creation of specialized task forces

Another important component of the SEB model is the conformation of inter-institutional task forces to confront complex and sophisticated criminal manifestations, such as the one involving the convergence of criminal groups, impossible to combat individually without a common strategy and action plan. This simply requires exploiting the capabilities and specialties of the parties involved, under the principle of coordination.

To confront criminal manifestations such as corruption and terrorism, concerted and articulated actions involving Intelligence agencies, judicial police, prosecutors,

²¹ Technology, in this section, refers to hardware and software, whose optimum use requires qualified human talent, quality information and defined processes in order to produce efficient analyses with the support of these tools. On the other hand, the SEB model also represents a shift in technology, in the wide sense of the term, by consisting of the reengineering of certain processes within the National AML/CFT System to improve its effectiveness.

oversight agencies, supervisors and reporting entities are required.

These specialized groups serve as elite bodies that operate in the framework of their corresponding legal powers, produce feedback and jointly tackle the same problem from diverse angles, meanwhile avoiding duplicity of efforts and contributing to the impact of the State.

3

FIUs as articulators

The UIAF designed and implemented in the last three and a half years a SEB work model through which to reinforce its task of preventing and detecting money laundering and the financing of terrorism, in coordination with the rest of the public and private entities that are part of the national AML/CFT system.

The above indicates that these entities can take on initiatives that result in a more active participation by all different parts of the system, consequently guiding the interaction between the parts towards

working as a cohesive mechanism to confront, in unison, a common threat. Often times the parts exist, but require impulse to work with greater efficiency. In this context, the UIAF has made an effort to serve as an engine for the National AML/CFT system, while the final results derive from the system as a whole.

The position of influence exercised by the UIAF is possible given the powers vested on it by law to request information from multiple government and private entities, its interaction in the prevention, detection and investigation areas of the system, its position as a national coordinator before the Latin American Financial Action Task Force (Gafilat, for its Spanish acronym), and its ability to propose legal amendments and contribute knowledge for public policy making. Finally, its role as Technical Secretary of the Inter-institutional Coordination Commission for the Control of Money Laundering (Ccicla, for its Spanish acronym), allows it to have a comprehensive vision of the threat and containment mechanisms.



04

SEB MODEL

RESULTS

Over the course of the three and a half years since the implementation of the UIAF Colombia's SEB model, the National AML/CFT system has accomplished substantial results in prevention, detection and asset forfeiture associated with money laundering and terrorism financing, as highlighted below:

1 Identifying goods associated with illicit activities, commercially valued at COP 6.9 billion (USD 3.600 million)²², notified to the Attorney General's Office, out of which COP 3.8 billion (USD 2.000 million) have been secured with preventive measures, and COP 39 thousand million (USD 20 million) with court sentences.

2 Surpassing the global interception rate, valued by the United Nations Office on Drugs and Crime (Unodc) at 0.2% of the total money estimated as money laundering worldwide²³, by nearly reaching a 19 percent²⁴ interception rate over an initial estimate of COP 20 billion (USD 10.530 million)²⁵ laundered annually in Colombia.

3 With regard to new reporting entities, between the years 2010 and 2014, the UIAF increased its sources of information by approximately 281 percent, represented in nearly 16,000 new companies, cooperatives or activities.

4 An adequate interaction with diverse supervisory entities was attained, resulting in that nearly all of the reporting entities to the FIU-Colombia have to implement ML/TF risk management systems.

5 The UIAF coordinated the first AML/CFT national public policy document, drafted and agreed upon among 24 public entities that belong to the Inter-institutional Coordination Commission for the Control of Money Laundering (Ccicla, for its Spanish acronym). In coordination with the National Planning Department (Dnp, for its Spanish acronym), the policy was presented before the Economic and Social Policy Council (Conpes, for its Spanish acronym), which approved Conpes document 3793 of 2013, in december of that year.

²² In a conservative estimate, the market value is three times the government's appraisal value of the goods identified by the UIAF. Note that all US dollar calculations in this document are based on an exchange rate of \$1.899, 07 pesos per one dollar, which corresponds to the average rate as of august 2014 emitted by the Bank of the Republic of Colombia. The results mentioned here are expected to increase by the end of 2014.

²³ In the study, "Estimating illicit financial flows resulting from drug trafficking and other transnational organized crime," (2011), the Unodc estimated the annual amount susceptible to money laundering in 2.7 percent of global GDP, equivalent to USD 1.6 trillion in 2009 GDP (USD 1.9 trillion if it is calculated based on 2012 GDP). Note that for Spanish language speakers, these values would be read as USD1.6 billion and USD 1.9 billion, respectively.

²⁴ This interception rate for Colombia was accomplished over the course of three and a half years (2011-2014).

²⁵ The amount for Colombia equals approximately 3 percent of national GDP (in this case the GDP for the year 2012), a calculation consistent with the International Monetary Fund's consensus range, which estimates that money laundering worldwide occupies between 2 and 5 percent, just as with the global estimate of 2.7 percent suggested by Unodc in the previously referenced study.

6 In line with Fatf-Gafi's Recommendation 1, Colombia, between May and September 2013, with the technical advice of the World Bank, the UIAF's coordination and the participation of 42 entities from the private and public sectors, carried out in Bogotá the **first national risk self-assessment**, as an initial diagnosis of the country risk that aims at orienting the State on how to focus its actions in prevention, detection, investigation and prosecution of ML/TF.

7 The UIAF entered into a cooperation alliance with academics and an international organization in order to produce a technical-scienti-

fic study to **quantify the magnitude of money laundering** in Colombia's economy and measure its impacts.

8 As international recognition to the country and its AML/CFT system, the Egmont Group, a cooperation and information exchange organization that currently groups 146 Financial Intelligence Units worldwide, granted in 2013 the award for best Financial Intelligence case to the UIAF-Colombia, for a case that was developed using the SEB model.



CONCLUSIONS

Money laundering is a crime that has evolved in time, adapting to new economic possibilities and the speed of financial transactions, thereby presenting new challenges for its containment.

Given its transnational character, associated to the mobility and concealment of assets, minimum homogenous standards independent from each State's political and economic model became necessary in order to establish a set of unified institutions to confront this crime from diverse angles and perspectives.

After laying down the bases of a social State under the rule of law through the Political Constitution of 1991, Colombia embarked on a long path to implement and adapt to the international standards, simultaneously proposing novel measures such as asset forfeiture or ML risk management systems for the financial and real sectors of the economy.

In this context, in order to exercise a proactive role within the system, Financial Intelligence Units (FIUs) must have the legal capacity to obtain the public and private infor-

mation that is necessary to carry out their Financial Intelligence activities with effectiveness. Likewise, they must have solid operational, technological and human capabilities that allow them to identify the threats that impact public safety and economic stability.

Anti-money laundering and countering the financing of terrorism (AML/CFT) national systems have traditionally worked in a one directional manner in terms of their information flow, hampering the State's ability to acquire a complete view of the phenomenon so that it may propose the adequate legal corrective measures. Given the above, a coordinated interaction between a national system's parts will help yield concrete results, measurable in condemnatory sentences and asset forfeitures.

The Systemic, Expanded and Bidirectional (SEB) model, designed and implemented by the UIAF since November 2010, is based on the expansion of the information sources, inter-institutional cooperation, feedback among all parts of the system and knowledge generation. It does not require the creation of a new system, but rather reinforcing

the existing one by improving the cohesion among the actors in all areas toward the attainment of results.

Put to the test during three and a half years, the SEB model has been effective in detecting and placing under temporary judicial measures, assets valued at COP 3.8 billion (USD 2.000 million), significantly surpassing the worldwide interception rate for money laundering. It has also accomplished an increase of 281 percent in the number of entities that must report to the UIAF and establish ML/TF risk management systems in diverse sectors of the national economy.

Achieving effectiveness at the national and international levels requires an adequate articulation among the system's actors, an expanded vision of the economic sectors at risk and the capacity to generate operational and strategic knowledge. Consequently, Financial Intelligence Units either have the ability, or if not the potential, to mobilize the system in that direction.

The UIAF's SEB model consists mainly of a change in technolo-

gy, whereby through innovation and reengineering processes, a better coordination and information transfer among the system's parts is attained. In this sense, the model is a proposal oriented toward the fulfillment of an effective AML/CFT system in favor of security, development and social wellbeing.



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