COUNTERING TERRORIST FINANCING RISKS IN THE BERMUDA NPO SECTOR

Protecting financial integrity within Bermuda's nonprofits

INTRODUCTION AND TRAINING OBJECTIVES

REMINDERS – FATF AND RECOMMENDATION 8

Financial Action Task Force (FATF)

Global Inter-governmental body that promotes enforcement of legal and regulator measures against Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF)

Caribbean FATF (CFATF)

Bermuda's jurisdiction is within the CFATF, which is an Associate Member of the FATF.

FATF Guidelines

The FATF sets international standards for preventing ML, TF and PF through their guidelines set out in 40 Recommendations and 11 Immediate Outcomes.

Recommendation 8

Specifically deals with the identification of NPOs and the application of focused, proportionate and risk-based measures to protect NPOs without unduly disrupting or discouraging legitimate activates. The focus of this recommendation is specifically for those NPOs that are inherently at-risk of TF abuse.

UNDERSTANDING TERRORIST FINANCING RISKS

WHAT IS TERRORIST FINANCING AND WHY IT MATTERS

Definition and Nature

Terrorist financing involves raising and using funds for terrorist purposes, often from lawful income sources making it hard to detect.

Risk Components

TF risk depends on threat, vulnerability, and consequence, according to FATF guidelines highlighting complex risk management needs.

Vulnerabilities in NPOs

Non-profits face vulnerabilities from cross-border work, fragile partners, and weak oversight of fund usage increasing TF risks.

Serious Consequences

TF can lead to violence, instability, loss of life, and reputational harm to charities, affecting humanitarian efforts globally.

GLOBAL AND CROSS-BORDER TF TRENDS

DIVERSION OF FUNDS COLLECTED BY A CHARITY

A client was receiving donations/small amounts of money from different people located in Germany and having them paid to his account in Switzerland. He informed the Swiss bank that he could not open an account for his charity in Germany due to legal restrictions and so he needed to use his Swiss account for collecting donations. The donations were meant to be withdrawn in cash and brought personally to Tanzania to build a fountain. According to the bank statements different reasons were listed when funds were withdrawn: “Donation Africa Fountain”, “Donation Streetwork”, “Tanzania Orphanage”, “Mosque Building”, “Karan School”, etc.

Media reports surfaced that identified that the NPO “Africa Fountain” was close to extremists related to terrorism.

USE OF A SCHOOL TO PROVIDE MATERIAL SUPPORT TO TERRORISTS

An Islamic school in southern Thailand provided a shelter for terrorists. The search of the school found guns and it was later proven that they were used in several terrorist incidents, and motorcycles which were reported to have been lost (but were in fact stolen). The search also found documents indicting forgery of receipt for stationary purchases and purchases of other teaching items in order to receive reimbursement for such items from the authorities. The school continually supported terrorist groups in various activities.

USE OF THE BANKING SECTOR TO TRANSFER INTERNATIONAL DONATIONS

An ongoing investigation in India alleges that the Islamic militant group Hizbul-Majahideen (HM) was receiving finds originating in Pakistan through different channels in support of its terrorist activities in India. HM is claimed to be actively involved in furthering terrorist activities in India and has raised over INR 800 million within the past eight years. This group has been designated as a terrorist organization by India, US and the EU.

Funds raised in other countries are also reportedly being transferred or diverted to organizations that act as fronts for HM in Pakistan. Once the money reaches India, it is distributed through various conduits at various places to active terrorists and families of killed HM terrorists. It is further alleged that the banking sector has been extensively used for transfer of funds to various bank accounts for the these activities. Funds have also been moved via money value transfer services (MVTS).

The funds are mainly used to financially support members of active and killed militants of the organizations, including family members. HM allegedly incurs expenditure on mobile communication, medical treatment of militants, arms and ammunitions, clothing and military equipment.

EMERGING METHODS AND INTERNATIONAL RISK EXPOSURE

Adaptation of Terrorist Financing

Direct Diversion

Sham NPOs

Exploitation of Legitimate NPOs

Abuse of Overseas Remittance Channels

Social Media and Digital Fundraising

Lone Actors and Small Cells

Cross-Border Risk for NPOs

Active Conflict zones

Grey List Jurisdictions

Fragile or post-conflict states

Importance of Due Diligence

Proportionate due diligence and ongoing monitoring are crucial to adapt to evolving terrorist financing trends.

BERMUDA LEGAL AND REGULATORY EXPECTATIONS

APPLYING FATF RECOMMENDATION 8 IN BERMUDA

Risk-Based Approach for NPOs

Bermuda NPOs must provide the RG with all requested information so the RG can assess their risk profile and set out the necessary focused, proportionate, and risk-based controls an NPO must put in place to mitigate terrorist financing risks.

Governance and Financial Transparency

The RG expects good governance from all charities, including transparency in financial flows, and controls ensuring funds reach intended beneficiaries.

International Operations Compliance

NPOs with overseas activities will be specifically reviewed by the RG and may be required to conduct due diligence on partners, document fund transfers, and monitor ongoing activities and the extent to which each may be required is dependent on inherent risk for TF abuse.

Balancing Compliance and Mission

Effective compliance avoids unnecessary restrictions and preserves legitimate humanitarian and social objectives.

Governance, Controls, and Practical Safeguards

GOOD GOVERNANCE AND INTERNAL CONTROL MEASURES

Strong Governance Framework

Effective governance requires clear purpose, leadership roles, and active oversight by boards or trustees. Do you:

- Know where your funds go?
- Verify the identity and background of your partners?
- Keep detailed financial records?
- Review your risks annually?

Risk Factors

- Size and financial profile
- International Activites
- Geographical exposure
- Donor and Beneficiary profiles
- Strength of Governance

RG Review process

POTENTIAL REQUIREMENTS FOR TF MITIGATION

- **Details on Foreign Bank Accounts**
- **Details on Foreign Donors**
- **Memoranda of Understanding or Other Agreements with Overseas Partners**
- **Details of All Projects (Directly Implemented or via Overseas Partners)**
- **Details of Foreign Beneficiaries and Evidence of Proper Accounting**
- **Details of Credit Card and Cash Transactions**
- **Copies of all Policies in Place to Mitigate Financial Crimes**

Case Studies and Interactive Learning

CASE STUDY #1

A Bermuda-registered charity partners with an overseas organisation to deliver educational programmes in a conflict-adjacent country. The overseas partner subsequently appears on a sanctions list.

CASE STUDY #2

A charity distributes cash grants directly to beneficiaries in a high-risk jurisdiction with no formal documentation system.

CASE STUDY #3

A charity receives a large anonymous donation via a foreign-based online platform.

CASE STUDY #4

A Bermuda NPO has its name used in promotional materials by an overseas partner without authorisation, implying formal affiliation.

Key Takeaways and Questions