

## Financial crimes: Securing the national threat

*The following is a full transcript of FedCentral's interview with Juan Zarate, a noted national security expert, and Frank Waikart, Financial Crimes Advisor, with Deloitte Financial Advisory Services LLP conducted by Jane Norris on September 6, 2012. To listen to the full interview go to <http://www.deloitte.com/us/fedcentral>.*

### Jane Norris

Welcome to FedCentral brought to you by Deloitte, a program where executives and federal government leaders talk about the issues and initiatives that are making a real impact on the business of government today to help government help America.

Today we're going to be talking about financial crimes. The United States has leveraged its financial and economic power to influence a range of global security threats and concerns from terrorism to international organized crime the world over, but how can the United States continue to isolate rogue and illicit financial activity to advance its national security? Joining us today to discuss how financial crimes can compromise national security in the federal government is the Honorable Juan Zarate. Juan is a former senior White House and Treasury official and

noted national security expert. He currently serves as a senior advisor at the Center for Strategic and International Studies. He also serves as the Senior national security analyst for CBS News and is a visiting lecturer of law at Harvard Law School.

Frank Waikart is with Deloitte Financial Advisory Services LLP, and a former senior advisor on terrorist finance with the FBI where he specializes in terrorism, financial fraud, money laundering, and the post-9/11 response of intelligence in law enforcement to the terrorist financing threats and by the way, both of these gentlemen worked together in the post-9/11 period in government. Gentlemen, thanks very much for joining us on the show.

### Juan Zarate

Thank you, pleasure.

### Frank Waikart

Thank you very much.

### Jane Norris

Nice to talk to both of you. Juan, let's start with you. So tell us a little about the current climate of the global financial industry and how it affects U.S. security interests.

### Juan Zarate

Well, it's very interesting because I think what we've seen is an evolution over the last ten years where you not only have a lot of intense pressure and intention from the U.S. government and other governments around the world on preventing illicit financial activity, everything from terrorist financing to the work of organized crime, but you've had in the private sector a real focus on trying to weed out illegitimate and illicit financial activity and what you've had is really a blending of activities where the federal government from the U.S. perspective has done a lot with law enforcement, intelligence, administrative tools from the Treasury, and other tools to really try to sanction and enforce the laws that we have in place and that we've put in place in the post-9/11 environment.



From the private sector perspective, there has been an increase in diligence on compliance not only those laws but also compliance with reputational risks, preserving reputation so that banks and other institutions don't find themselves dealing with nefarious actors, don't find their names in the front pages of *The Wall Street Journal*, *Financial Times* for having violated sanctions or laws, or having facilitated activities which at the end of the day proved to be an international security risk. And so in that convergence, you have a very interesting environment where not just the government but the private sector is also worried about illicit financial activity.

#### Jane Norris

And does the government work with private industry to make the financial crimes process a little more transparent or cohesive?

#### Frank Waikart

It's absolutely essential, Jane, that the private sector and the government work together. I mean, the tools that the private sector brings, it's worldwide reach, it's analytical capabilities, it's a knowledge of financial institutions — you marry that with the responsibility and the enthusiasm, the focus of the federal government and you have a powerful tool to attack financial crimes. Financial crimes cover everything from threat to finance to terrorism. You've got trafficking in humans, you've got narcotics. You have proliferation, everything circles back to the money. The bad guys need to get paid, they need to move the money whether they're dealing in drugs or human beings.

#### Jane Norris

So what are the consequences of financial crimes? I think we are aware that this is going on. I know that we know that there are illicit activities. It's people who would seek to do harm to the United States and how they are performing, so how are we impacted by that on a day-to-day basis?

#### Juan Zarate

Well, I think Frank hit it on the head, which is that money fuels the ability of these transnational networks, be they terrorist groups or organized groups, to not only achieve their goals, be they political or profit-generating, but it allows them to have global reach and allows them to facilitate their activities, and so in the first sense, illicit financial crime has the standard inefficiencies in cost to sort of legitimate business. When you have extortion, for example, on legitimate business, that is an inefficiency, creates problems, but it really devolves to a broader problem, which is illicit financial activity fuels the ability of illicit actors, nefarious actors to achieve their goals and again, in the first instance, you look at the street-level

crime, street-level illicit financial activity and that allows gangs and drug trafficking organizations to harm society, to engage in drug trafficking.

At the macro level, you have groups like Al Qaeda, you have states like North Korea and Iran that use the illicit financial trade — illicit financial activity to fuel their activities, to fund their regimes, and to do things that frankly are just antithetical to U.S. national security interests, and so this — the focus on illicit financial crime— there's always been a focus on it but I think over the last ten years in the post-9/11 period, there's a realization that the nexus between the movement of illicit flows of funds and national security concerns are fundamental and that's why there's been such a focus.

#### Frank Weichert

That's right. It's so easy to move money. It's so easy to electronically move funds from one account to another. It's no longer the problem — it's always been financial crime since time began but it's no longer the bank in one state or financial crime in one state and how do you prosecute it in another state. It's an international problem and moving huge amounts of money for the terrorists, for the drug trafficker, and a lot of this is unwitting by the financial institutions, and they have a responsibility and a need to do their compliance and their due diligence. Sometimes you have people inside a financial institution that are willing conspirators that are the criminal. Other times, you'll have those that for lack of looking, they let things happen. Which one is more guilty? Who knows, but the money moves.

#### Juan Zarate

And I think the very nature of globalization, interconnected nature of the international financial and commercial systems both creates vulnerabilities. The ability of criminals, as Frank was mentioning, to move money, to raise money, to use various facilities, be they banks or trading companies, to reach beyond their locality and to increase their reach and their influence, but it also gives the U.S. and other legitimate actors tools to clamp down, and I think what you've seen in this period is a sense that we're able to use the elements of globalization, the connectivity, the financial system, and a centrality of the U.S. financial system as a key lever and tool to isolate rogue financial behavior. That is to say, if you want to do business in the U.S., you're going to have to be a legitimate actor and you're going to have to exclude those who are trying to gain the system, who are trying to use the global financial system for nefarious purposes, and that has been a driving motive and policy for the U.S. government in the last ten years, and you've seen it drive much of the policy that we've had on terrorist financing, isolation of North Korea

and Iran, the isolation of organized crime groups, and using all the tools that we can bring to bear from law enforcement all the way to high-order diplomacy to get that done.

#### **Frank Waikart**

It's so important for the federal government and the employees to realize that their challenge is that they need to know not only the laws of the United States, they need to be familiar with the international financial structure, whether you're in an intelligence agency, whether you're one of law enforcement, whether you're in a treasury capacity. It's a worldwide challenge and you take an agency like Financial Crimes Enforcement and Network; FinCEN. I mean, they're responsible for the Bank Secrecy Act for implementation of a lot of the Patriot Act responsibilities, and the private sector needs to come in and help the government where possible, where necessary, to increase their capabilities and capacities to fight this international financial crime whether it be a technology solution, an analytical solution, or just an advice solution.

#### **Jane Norris**

So both of you have worked in government, you at the White House and probably several other capacities and you at the FBI, Frank, so are there more agencies, then, we would think of as traditional agencies that would be involved in the tracking of financial crimes?

#### **Juan Zarate**

Well, it's a great question because I think one of the interesting evolutions of the last few years is the fact that you have a broader sense of what national security is and a broader sense of who the actors should be, and so clearly you have the classic national security agencies that are part of this; the FBI, the Department of Justice, the CIA, to a certain extent, the Department of Defense, but what you have is a broadening of the sense of who should be vigilant and who has a role in effectuating the security of the international financial system.

So that's in part why Treasury has become so much of a central actor in a lot of this work. You have the State Department playing a key role in terms of financial diplomacy. You have other agencies, USAID, OPEC, Department of Commerce, all these agencies that have reach internationally and that have money and facilities that play a role in this system, and all of those agencies then play a role in our national security.

#### **Frank Waikart**

And those agencies then from the executive branch have to be sure that they mesh their activities and that they do it consistent with the laws of the United States and the

relations with Capitol Hill and the various committees that are charged with responsibility for financial movement and regulation. It's — and then the judicial system always passes judgment on what we come up with, what tools we use in the United States versus tools that we might want to use overseas. Some are similar, some are different. We bring the intelligence community with the law enforcement, with the regulatory, with the military. We have to remember that, too, in a war zone. The financial crimes and the movement of money to support terrorism is such of vital importance.

#### **Jane Norris**

And it's a growing — I mean, am I correct in assuming that this is a growth pattern that we are seeing, that this is netting success? I mean, I don't know how you measure success in this area but that we're seeing some success and therefore, this is proliferating?

#### **Juan Zarate**

Absolutely. I think there's not only been success in the field, and I think success can be defined by making it harder, costlier, and riskier for these nefarious actors, be they Al Qaeda or Iranian fund companies to do business. You're never going to stop all of the flows of illicit capital, but I think we've seen success and the paradigm that's been applied in particular to terrorist financing you've seen replicated with respect to counter-proliferation, international organized crime, and other areas of concern from a security perspective.

#### **Frank Waikart**

That is a success, the integration of financial investigations and sanctions across the board.

#### **Jane Norris**

Alright. We're going to come back with more of this fascinating conversation. Stay tuned. You're listening to FedCentral on Federal News Radio 1500 AM with the Honorable Juan Zarate, former senior White House and Treasury official and noted national security expert, and Frank Weichert with Deloitte Financial Advisory Services LLP. I'm Jane Norris. You're listening to Federal News Radio 1500 AM.

Welcome back to FedCentral brought to you by Deloitte. Today we're talking about financial crimes with the Honorable Juan Zarate, a former senior White House official and Treasury official, also, and he now is with the Center for Strategic and International Studies as well as many other locations. Frank Waikart is here with us from Deloitte Financial Advisory Services LLP. He's a former senior advisor on terrorist finance with the FBI and we both have been captivated or I'm captivated by what you've

both been saying. So I want to talk about the geopolitical implications of financial crimes and how other countries are now beginning to either assist or work with or do their own analysis of financial interactions and catching the bad guys, if you will.

**Juan Zarate**

It's a great question, Jane, as there's an interesting development internationally. It's happened over the last 10, 15 years where you have this interlocking network of government agencies and even private sector actors who are looking at and are concerned about illicit financial activity. For example, you have over 110, 120 or so financial intelligence units around the world. These are units that are dedicated to looking at financial data looking for suspicious activity, analyzing it, and then sharing that information around the world to key law enforcement agencies.

The central banks around the world, the finance ministries around the world now have deeper capacities to share information about sanctions of Asia and about financial crimes, and of course you've got the classic law enforcement agencies that run deep in their capabilities since 9/11.

Frank was an important part of that at the FBI with the development of terrorist financing operations sections, which is now a key component of what the FBI does on a daily basis, and you've seen that around the world, and so the capacity has been built and you've had the State Department, Treasury trying to help others build that capacity as far afield as Afghanistan where you've looked at the poppy trade, for example, and illicit financial activity tied to that where we've built capabilities in the Afghan Central Bank and with their prosecutor's office to actually look at illicit financial flows in and out of Kabul, and so this is a global effort, has to be by the very nature of the problem we're talking about and what's interesting is countries around the world have this as a deep, fundamental interest on their own aside from the prompting from the U.S.

**Jane Norris**

Because money flows between countries but also impacts the local community.

**Frank Waikart**

It certainly does and I think it's a proverbial phrase if someone sneezes and the other person catches a cold, and I think that you can use that in speaking of countries, thinking of groups, and Juan made a good point there about in Afghanistan and then back before that in Iraq

where we had American troops, we had international coalitions, we had terrible terrorist problems and stability problems. We created financial groups, investigative groups and sanctioned groups to work with the Afghans and work with the Iraqis to ensure a basic control and knowledge of the movement of money. It by no means is 100% successful. There's still huge problems, but it emanates from those areas to the rest of the world, and it's the responsibility of the law enforcement and the Treasury, the central banks to make sure that they're talking to each other and working together to number one, identify the problem and number two, internationally come up with the solution.

**Jane Norris**

You know, just from my own observation of this, are these crimes that we would not necessarily know about? I mean, are these the kinds of things that would not necessarily make the evening news just because of the nature of the investigation and the seriousness of it?

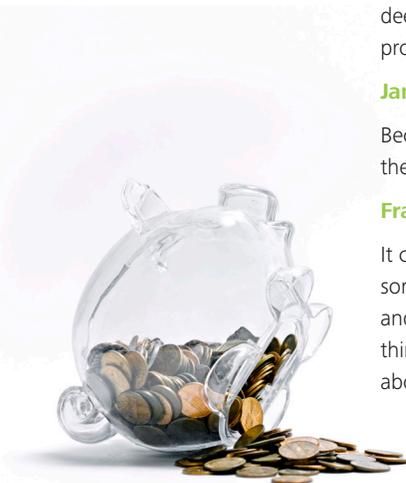
**Juan Zarate**

I think that's right. Some of it is it happens in the shadows, clearly the work of intelligence agencies and law enforcement that happens quietly. Part of this, too, is these are complicated cases often. It's hard for the media to put these into bite-sized bits to feed in classic media form. So for example, you've had some very interesting cases emerge over the last year and a half or so led by the Drug Enforcement Agency looking at money laundering by Hezbollah, the terrorist group based in Lebanon, that has laundered hundreds of millions of dollars through a Bank called Lebanese Canadian Bank using used car dealers and the drug trade through West Africa up into Europe.

A fascinating story, one that's been written about by *The New York Times* and others but hasn't gotten a lot of attention, in part because it's so complicated, but these are the kinds of financial criminal activities that touch the banks, that touch classic money laundering operations, that touch on new networks for concern — for example, drug trade through West Africa. All of that's very interesting and important and demonstrates not only a level of tension but a level of sophistication on the part of the government to deal with some of these evolutions.

**Frank Waikart**

That's right, and to use the phrase, it's not completely accurate but it's the Al Capone model. In other words that you have the terrible terrorism, you've gotten drug violence, you've got human trafficking, you've got nuclear proliferation. You can always go after the money and



you can use the financial laws to put these people away. It's fascinating the way we're developing internationally the law enforcement sanctions work and the intelligence community addressing the Hezbollah problem through the money end and not necessarily through the bomb-throwing end.

**Jane Norris**

So it does take international cooperation to make this happen.

**Frank Waikart**

Absolutely.

**Juan Zarate**

Yeah, I don't think we should be Pollyanna-ish about this because it's clear that there are still countries out there, Russia and China chief among them, that frankly don't like the notion of the use of aggressive sanctions for diplomatic purposes, coerce of diplomacy, but importantly you've seen this in the Iranian sanctions context. You've had a real sea change over the last ten years, in particular in Europe with an acceptance that not only sanctions are a tool to be used but can be used outside the auspices of the United Nations, and so we saw just a few days ago the European embargo on oil for Iranian oil, European and union sanctions on Iranian banks that have matched what the U.S. has done.

These are very significant international cooperative efforts to go after very similar threats, and you've seen the U.S. do the same. For example, last summer the Obama Administration announced a new strategy going after transnational organized crime, very significant, what the Obama Administration calls a national security concern, something we felt in the Bush Administration, as well, and I think that matches then the concerns that you've seen out of London and France and Germany about the growing rise of Eurasian organized crime groups and Asia with the Asian triads, and so there is an international consensus about the need to look at the money flows, the need to clamp down, and the need to go after the networks that are of national security concern.

**Frank Waikart**

And it's so important and this is what the government is doing more and more of, our government and others, is establishing those relationships so necessary, cooperative relationships with the financial institutions of the world to identify that bad money passing through good banks rather than saying that it's a bad bank. It's just the need to work together, private sector and the government to identify the means and methods. That whether you're a terrorist group or a drug group, that they move the money

that they so desperately need in order to survive and when you have then that sanctions threat — I mean, it's a carrot-and-stick approach. You want to do it voluntarily. The banks realize that it's necessary to do it for their own good, and that's how a private sector working with the government can impress upon each other the importance of realizing where each person stands, each financial institution stands, or each government agency.

**Jane Norris**

Do the criminal networks, realizing this, try to move their money into locations where this kind of investigation really doesn't reach or is there such a place?

**Juan Zarate**

Absolutely. I think these are thinking organizations. They're smart people behind them. They're trying to make money. There's lots of money in illicit trade, and so there's no question that money finds a way to flow and they find the weak links in the international chain, and so part of that is finding institutions that they can deal with, that they can co-op or bribe. Part of it is, and we've seen this in the case of Iran and others, actually buying financial institutions so that they have access into the international system. Part of this is the creation of alternative networks where the rogue actors begin to create shadow networks that allow them access to financing in the international system, and then you have the informal ways of moving money — cash couriers, hawaladars, which is sort of the traditional way of moving money in south Asia, Africa, and the Middle East.

And so there are always ways to move money and I think the realization for the international community is you can't stop it. The question is where can you pressure it and how can you really define the lines of legitimate activity and illegitimate activity and as Frank indicated, how you get the private sector to really be the gatekeeper to the financial system for you as a force multiplier, and that really has been the magic over the last ten years because the private sector has been a key actor in guarding the financial system for not only their purposes but also for international security purposes.

**Jane Norris**

So talk a little bit about Deloitte's capabilities here, Frank. I mean, I know that there are certain things that we couldn't talk about here and — but just generally, how does the private sector assist?

**Frank Waikart**

Well, certainly, Deloitte and other companies, but in particular Deloitte and the Financial Advisory Services. It does the advising for the private sector and increasingly with the government on financial matters. The movement

of money, the identification of bad money, entire anti-money laundering practices that have developed that we utilize with the private sector and now we're working with the federal government on, and then our forensic analytical capability that is worldwide. In other words, it's a reach across 162 different countries and offices to bring to bear for the financial institution or to assist the government in building a sanctions case, a law enforcement case, or what have you.

**Jane Norris**

So as we look at the landscape over the next ten years, what takes new importance in the world of financial crimes?

**Juan Zarate**

Well, I think continuing to build momentum in terms of international cooperation to isolate rogue financial actors and to help define that zone of legitimacy in terms of who the legitimate actors are, who the right countries are to help. I think a key question, as well, is will there be a continuous challenge to the U.S. primacy in the financial sector, a challenge to the dollar, for example, that begins to weaken our ability, U.S. government's ability to influence around the world, and then as well and importantly, how do other actors, rising powers like China or even Russia — how do they think about the use of their financial power and economic influence? We've seen glimpses of that in the rare earth mineral debate with China squeezing their supplies for diplomatic reasons, the Russians squeezing supplies of oil for political reasons, and so those are interesting questions because we're not the only ones who can apply financial power and influence.

**Jane Norris**

Frank?

**Frank Waikart**

No, but the importance is with these problems, we have to be able to analyze the data and the information. We might have the solution in our mind and around the conference table, but we have to have a way to look at the data, to manage the data that is increasing around the world, and the private sector, again if I may mention, that Deloitte did help through the information technology system rebuild the FinCEN's entire program.

**Jane Norris**

Well, we thank you both for joining us today. Too short of a conversation, but a fascinating one. Find out more at [federalnewsradio.com](http://federalnewsradio.com). We've been talking today to the Honorable Juan Zarate, former senior White House and Treasury official, and Frank Waikart with Deloitte Financial Advisory Services. You're listening to FedCentral on Federal News Radio 1500 AM. I'm Jane Norris.

