

Modern Slavery: Financial Typologies

Webinar handout
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GRC Solutions / Fair Supply Webinar Modern Slavery – Financial Typologies

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“Follow the money, find the crime.”

Financial Tracing in Modern Slavery
Detection and Risk Assessment



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It is estimated that the total illegal profits obtained from the use of forced labour worldwide amount to US\$150.2 billion per year.

More than one third of the profits – US\$51.2 billion – are made in forced labour exploitation, including nearly US\$8 billion generated in domestic work by employers who use threats and coercion to pay no or low wages.

The Report of the United Nations' International Labour Office, Profits and Poverty: The economics of forced labour, 2014



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Introduction

The idea of 'follow the money, find the crime' has been central to the detection, investigation, and prosecution of many types of contemporary organised criminal activity, especially that which occurs at an international scale.

- It is an increasingly rigid expectation, that private financial institutions be vigilant, and proactive, in identifying and acting upon 'red flags' that may indicate that their banking infrastructure and funds transfer facilities are being used for such criminal activity.
- The AML/CTF Act has a broad definition of "money laundering". **Proceeds of modern slavery** fall within this legislative definition and are required to be reported.
- This is especially critical in circumstances where the Modern Slavery Act 2018 (Cth) requires Board approval and relates to Directors Duties.
- The clandestine nature of modern slavery and aspects of its economic dimensions means that there are inherent limitations of modern slavery detection and elimination.

The success of financial tracing tools in relation to OSEC slavery

The detection of OSEC offenders (especially those 'end-consumers' in first-world countries such as Australia) using financial tracing tools has undoubtedly been a major success story in the fight against modern slavery in recent years.

A powerful illustration of the potential effectiveness of such financial tools is outlined in the US State Department's 2020 TIP Report:

Following publication of the Anti-Money Laundering Council's report documenting the link between small amounts of illicit wire-transferred funds and cyber-facilitated sex trafficking, law enforcement **identified 147 suspects in the Philippines for joint investigations of child sex trafficking and money laundering based on an analysis of suspicious money transfers.**

The stringent monitoring and investigation of the transfer of relatively small amounts of money between apparently unrelated persons to known OSEC hotspots such as the Philippines is a relatively simple and effective method of financial tracing related to modern slavery activities. It is not, however, a financial typology that is readily transferrable to other forms of modern slavery.

This is because, unlike other types of modern slavery, OSEC characteristically involves a direct electronic financial trail between the end-user (offender) and the 'on-the-ground' exploiter of the young person who is directly responsible for carrying out the sexual exploitation.

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Some recognised general indicators relating to modern slavery (non-OSEC)

- Traditional notions of slavery can lead to the perception that no payment whatsoever is made to the worker (therefore meaning there is no traceable flow of funds), the 21st Century reality is often somewhat different and more complex.
- Quite commonly, payments that are ostensibly 'wages' can be strong indicators of modern slavery-related activities, and/or other related aspects of organised criminal activity such as money laundering.



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The following is a sampling of money laundering-type indicators relating to modern slavery:

- ✓ Multiple workers being paid into a single bank account.
- ✓ Cash deposits into an account followed rapidly by complete (or almost complete) withdrawal or funds transfer to an account held by an unrelated person or entity.
- ✓ Multiple ATM withdrawals at the same time and location from different customers who have the same registered residential address, or some other common identifying feature on their account information.
- ✓ Transactions made using new payment technologies including virtual currency and/or email money transfers occur to/from foreign countries.
- ✓ Use of third parties, with no apparent relationship to the named account holder, to conduct financial transactions, particularly outgoing transactions.
- ✓ Customer accounts linked to escort service advertisements.
- ✓ Deposits into customer accounts being primarily or exclusively coming from third-party cash deposits.
- ✓ Third parties claiming to act on behalf of a named account holder, and demonstrating control of the person and their key identifying documents (passports, ATM cards, etc) when interacting with the financial institution and its staff.
- ✓ Bank account activity showing an almost total absence of transactions paying for ordinary living expenses (e.g. rent, utilities, food, petrol, medical expenses), but rather a single periodic withdrawal almost immediately after deposit.
- ✓ A cluster of the bank accounts registered to the same mobile number, email address, and/or same stated (foreign) nationality (and/or locality) of account holder.
- ✓ Income received (deposits made into accounts) being immediately withdrawn (in full, and in cash) from the same ATM and at the same time.

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Some recognised general indicators relating to modern slavery (non-OSEC)

'Macro' and higher-level tracing based on relative input/output values

One well recognised form of financial deductive methodology for modern slavery risk assessment involves identifying disparities between ***the what should be the cost of providing a particular product or service (particularly at more rudimentary levels of the supply chain – with raw materials and manufacturing processes), and the actual or quoted cost of that product or service.***

It is acknowledged that this form of analysis falls largely outside the realm of detection by individual banking and other financial institutions. ***Rather, insofar as the role of private entities is concerned, it falls more within the realm of procurement vigilance.***

Nexus with other organised criminal activity

A significant link has been demonstrated between (often large scale) human trafficking operations and international terrorist organisations. For example, trafficking flows relating to armed conflict can include sexual slavery, domestic servitude, forced labour, forced recruitment and forced marriage. Invariably, the instability created through armed conflict (whether on an intra- or inter-state level) leads to a heightened susceptibility to human rights abuses, including issues related to modern slavery.

International law enforcement efforts in relation to terrorist activities have always focused strongly on a wide range of financial typologies. A simple example is the tracing of payments to/from a terrorist organisation before, and/or after, a planned terrorist attack. Whilst modern slavery activities may not crescendo with single events (and the associated concentration of potentially traceable financial flows) in the same manner as terrorist acts, there are still ***critical events in certain areas of modern slavery, such as the purchase (or 'offloading') of slaves in connection with their forced translocation across international borders.***

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Elimination-based financial tracing

There also appears to be significant potential in the development and refinement of 'elimination-based' approaches to financial typologies as part of modern slavery risk assessment.

By way of analogy, current best practice for processes such as desktop auditing of suppliers includes substantial components where a particular supplier's risk profile is deemed lower through the demonstrated presence of certain measures (e.g. published, plain-language human rights and whistleblower policies; in force auditing procedures relating to worker conditions, etc).

One example of a protective measure that facilitates greater financial tracing and therefore reduced modern slavery risk is detailed in the 2020 TIP Report in relation to Saudi Arabia:

During the reporting period, the government expanded usage of its Wage Protection System, which required employers to pay foreign workers by electronic transfer via a Saudi bank, thereby permitting the government to track disbursements and prevent non- or delayed payments of wages—a key forced labor indicator prominent across the Kingdom. This requirement applied to all employees who worked for companies with 11 or more employees and covered the vast majority of expatriate workers in Saudi Arabia. In addition, it mandated individual employers of domestic labor to issue prepaid payroll or salary cards as soon as the domestic worker arrived in the Kingdom to ensure a legal working relationship between employer and employee and safeguard employees' prescribed wages. The system, currently voluntary, reviewed payrolls and imposed penalties for any firm that failed to maintain at least 80 percent compliance, resulting in suspension of government services and recruitment privileges.

Some recognised general indicators relating to modern slavery (non-OSEC)

Financial evidence in individual prosecutions for modern slavery

The crucial nature of financial evidence to secure convictions in prosecutions for human trafficking and modern slavery-related offences must also be emphasised. In addition to the pivotal role such evidence plays in OSEC prosecutions (discussed above), it can also be of central importance (albeit in varying forms) in criminal prosecutions relating to forced labour.

A series of successful criminal prosecutions in the United Kingdom in 2019 highlights this fact. They also demonstrate the sometimes counter-intuitive nature of financial indicators of modern slavery activities – such as where the presence of significant numbers of bank cards and the like for accessing bank accounts held in the victims name can actual be indicative that those individuals are being held in forced labour conditions.





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Resources

Fair Supply Analytics report: ***Trends behind the first 121 Modern Slavery Statements***

GRC Solutions e-Learning: ***Modern Slavery Training***

Bespoke services: ***Facilitated Workshops/Exposure Assessments/Policy Reviews***



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GRC Solutions Webinar Strategies for supporting diversity in the Australian workplace

Professor Catharine Lumby, Macquarie University,
Adviser to the NRL on cultural change and education programs for players

Adrian Phoon, Head of Content, GRC Solutions,
former Co-Chair Sydney Gay and Lesbian Mardi Gras

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