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Financial Front in 'War on Terror' Expanding

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By Caroline Drees, Security Correspondent

WASHINGTON (Reuters) - Since the Sept. 11 attacks, the United States has sought to stop the flow of funds to terror groups and now, as militants hone their ability to hide and move money, the fight is expanding beyond banks to businesses such as jewelers and car dealers.

Once limited to the financial sector -- from banks to money transmitters like Western Union -- the scope of the U.S. war on dirty cash is growing and increasingly touching citizens' everyday lives.

"A year from now, most Americans when they go buy a boat or plane, book an airfare, buy some jewelry for the missus, buy a car, they are all going to have to deal with compliance requirements and it's going to impact their everyday living," said Kenneth Bryant, an anti-money laundering consultant.

"They are going to have to show who they are, and what the source of funds is. Not all of those industries have fallen under the legislation yet. But it's coming, and it's being talked about," he said.

The regulatory moves, many of which flow from the 2001 USA PATRIOT Act and cover businesses from small family operations to multinational corporations, are primarily focused on the United States, but the ripple effects are felt worldwide.

All U.S. companies and all foreign firms doing business in the United States must comply. Many others do so voluntarily to facilitate dealings with U.S. partners.

Spending on anti-money laundering and anti-terrorist financing programs has ballooned since the Sept. 11 attacks.

International auditing and accounting group KPMG said in its 2004 global anti-money laundering survey that compliance spending at financial institutions had soared by an average of 61 percent over the past three years. In North America, about 30 percent of respondents reported a rise of more than 100 percent.

Critics question whether the stepped-up vigilance will actually reduce terror financing, arguing that criminals quickly learn to circumvent new restrictions. Others say safeguards required by the U.S. Treasury may involve too many industries and may impose excessive costs.

Proponents say that's a price worth paying, and praise regulators for keeping compliance demands in check while consulting relevant industries before finalizing rules.

MORE REGULATION AHEAD

While financial institutions, including casinos, must already comply with tough post-Sept. 11 regulations, similar requirements are expected in the coming months for businesses selling real estate, cars, boats, airplanes, precious stones and jewelry.

"Any time there's a product that can be resold in the market that looks like a legitimate business, that could be a way to conduct terrorist financing," said Ellen Zimiles, an anti-money laundering expert at KPMG's forensic practice.

Cecilia Gardner, head of the Jewelers Vigilance Committee trade association, said criminals seeking to move money around the globe while avoiding highly regulated banks might look to industries like hers which sell high-value products that are easily transported and resold. Still, she said abuses were rare.

Protective measures in various industries include keeping tabs on suspicious activities, stepped-up identity checks for customers and the origins of their cash and regular reports to regulators.

Experts say many large or high-profile firms adopt the safeguards voluntarily to avoid hefty future costs to their business and reputation if there is a lapse.

Even companies with less tangible products -- such as Internet service provider America Online, and information group Reuters -- have also implemented strictures to avert abuse.

America Online spokesman Nicholas Graham said the company had compliance teams and worked closely with law enforcement to keep its thousands of chat rooms, message boards, online payment systems and other services safe from abuse by militants.

Reuters, which operates trading systems, tries to ensure they are not used by criminals or militants to move or hide money across the globe, compliance chief Martin Oakley said.

DEBATING THE MERITS

Some of the industries forced to adopt the new measures question their merit.

"All they really do is inconvenience a lot of people and create more paperwork for someone in Washington to ignore," said Alan Feldman, a spokesman for the Mirage casino in Las Vegas. "The notion that someone is money laundering in a commercial casino today is simply laughable."

Some analysts say companies may only comply minimally because the increased oversight and reporting adds to their costs.

Some critics also worry the financial burden could hurt competitiveness. Other fret that as the government expands the number of industries which must comply, the "scope creep" will be disproportionate to the threat.

But experts like Neil Katkov, an analyst at the consultancy Celent, says the regulations are valuable because ordinary corporations are not going to do anything about terror funding or money laundering "until the regulators really come knocking on their doors."

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