Hearing entitled "Following the Money: How Human Traffickers Exploit U.S. Financial Markets"

Statement of Louise Shelley, Omer L. and Nancy Hirst Endowed Chair
Founder and Director, Terrorism, Transnational Crime and Corruption Center (TraCCC)
University Professor, Schar School of Policy and Government
George Mason University

This testimony will assert the importance of increasing the effectiveness of the financial industry as a tool to combating human trafficking. The analysis will focus on trends in human trafficking, measures the financial community can implement to improve the detection and prosecution of human trafficking, and how research and analysis can contribute to improved effectiveness. Passage of H. R. 2219 to Increase the Role of the Financial Industry in Combating Human Trafficking will provide an important step in the right direction if it is combined with efforts to focus **on proactive rather than merely reactive measures.**

Recent trends in human trafficking are characterized by:

1) **Increasing presence online and use of social media**

   Human traffickers are increasingly operating online because criminals are rapid adapters of new technology. Between 2010 and 2015, the National Missing and Exploited Children Center reported an 846% rise in reports of suspected child sex trafficking—an increase found to be "directly correlated to the increased use of the Internet to sell children for sex."[1] DARPA (Defense Advanced Research Projects Agency), that developed the Internet, analyzed the temporary sexual advertisements and peer-to-peer connections within the Deep Web. The research showed that "Over a two-year time frame traffickers spent about $250 million to post more than 60 million advertisements." This extensive advertising budget is justified by the large numbers of victims and the high profits made.[2]

[1] United States Senate, Permanent Subcommittee on Investigations, Backpage.Com's Knowing Facilitation of Online Sex Trafficking, 7. https://www.mccaskill.senate.gov/imo/media/doc/2017.01.10%20Backpage%20Report.pdf.

[2] Larry Greenmeier, "Human Traffickers Caught on Hidden Internet," February 8, 2015, https://www.scientificamerican.com/article/human-traffickers-caught-on-hidden-internet/ and also the accompanying visualization that reveals the international links, Scientific American Exclusive: DARPA Memex Data Map. https://www.scientificamerican.com/slideshow/scientific-american-exclusive-darpa-memex-data-maps/ (especially map 4).

2) **Movement of human trafficking away from the streets to locales where it is less visible**

Social media and the Internet have made it possible for sellers and buyers to connect without personal contact. The investigations behind Backpage have revealed the company's centrality to human trafficking. Therefore, there are many fewer women and girls who solicit customers on the street; rather, their customers arrange meetings in hotels and homes. Therefore, human trafficking leaves its footprint in cyberspace, and often in financial systems. Low-level hotels are hubs for the sale of drugs and people, knowing the **beneficial owners** of these establishments is key to combating human trafficking.

3) **Increasing convergence of human trafficking with the current opioid epidemic**

The opioid epidemic increasingly converges with sex trafficking as pimps use opioids to entrap and maintain control over girls.[3] Individuals who have become addicted to opioids often need money for future purchases of drugs and become trafficked after entering into sex markets. Therefore, implementation of best practices as the proposed legislation H.R. 2219 suggests, is key to stemming the growth of human trafficking, and might have a positive collateral impact on the opioid epidemic. The key is identifying best practices and establishing a regulatory system that allows bankers to be flexible and responsive to the ever-changing practices of the agile human traffickers.

4) **Payment in Cryptocurrencies**

There is an increasing problem of criminals employing cryptocurrencies[4] such as FBTC Exchange, WebMoney, Bitonic and xmlgold.eu. Some of these currencies intersect with traditional financial service providers, as the criminals convert their

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[3] A few recent cases of this are given as a representative sample: "Attorney General Schuette: Four Sentenced for Their Roles in Southeast Michigan Opioid and Human Trafficking Ring." State of Michigan. December 19, 2017. Accessed January 23, 2018. http://www.michigan.gov/som/0,4669,7-192-47796-455935--,00.html; "Major Gang Case Results in 37 Bloods Members Sentenced to Over 415 Years in Prison." U.S. Department of Justice, September 4, 2015. https://www.justice.gov/usao-edva/pr/major-gang-case-results-37-bloods-members-sentenced-over-415-years-prison;"Uncasville Man Sentenced to 8 Years in Prison for Child Sex Trafficking and Heroin Distribution Offenses." U.S. Department of Justice. December 12, 2017. Accessed January 23, 2018. https://www.justice.gov/usao-ct/pr/uncasville-man-sentenced-8-years-prison-child-sex-trafficking-and-heroin-distribution.

[4] Marc Goodman, *Future Crimes: Everything if Connected, Everyone is Vulnerable and What Can We Do About it?* (New York: Doubleday, 2015), 209-11; Anser, *Risks and Threats of Virtual Currencies*, 2014. Accessed July 14, 2017, https://www.anser.org/docs/reports/RP14-01.03.03-02_Cryptocurrencies%20508_31Dec2014.pdf.

> cryptocurrences into standard currencies. Therefore, it is important that the financial community stays vigilant about its intersection with the world of cryptocurrencies and develop algorithms and best practices to understand illicit activity in this arena, as some human traffickers are receiving payments through them.

These four trends of recent years all have important implications for the banking community because trafficking is even less visible, except in cyberspace and in the financial traces it leaves there. To combat human trafficking we need to be ever more reliant on the emerging capability of the banking community to analyze its data in a **proactive** way, to help locate cases of human trafficking. Following the money and the patterns of human trafficking in big data allows law enforcement to build effective cases without placing victims in jeopardy. This is cost effective, as banks are already allocating significant resources to countering money laundering. This new approach requires **public-private partnerships** of which we already have several excellent examples to build on.

Proactive data mining would have a very positive impact on the capacity of law enforcement to combat the problem. It would also have the additional benefit of helping to combat the opioid epidemic, with which sex trafficking is currently closely linked, according to preliminary analyses of financial data by a banker at a major Midwest institution interviewed for this testimony.

The Financial Community and Mining of their Data

In late 2014, in a report that I co-authored for the World Economic Forum entitled, "Hedging Risk by Combating Human Trafficking: Insights from the Private Sector," we discussed the efforts of J.P. Morgan starting in 2010 to use typologies to mine their data for signs of human trafficking.

> The team partnered with the Department of Homeland Security to create typologies that could identify financial transactions and certain account attributes that were worth investigating. Certain geographic locations and types of businesses – nail salons, non-unionized stores, restaurants – were viewed as a higher risk for trafficking activity based on publicly sourced information. Coupled with types of transactions – credit card charges at certain hours of the night, for example – JP Morgan's Financial Intelligence Unit began to see distinct patterns emerging.
> "For instance, we found $100 manicures between 23.00 and 04.00 in Manhattan," he says. "Nobody is getting a manicure that late, and whoever is getting a manicure is not paying that amount of money for it." Viewed separately, none of the variables seemed remarkable. Yet viewed in aggregate, they created an anomaly or pattern worth

investigating.[5]

Unfortunately, the regulatory problems that followed J.P. Morgan's role in the housing crisis led to the departure of most of the innovative team that was behind this effort and the return to more reactive patterns, such as filing SARs, rather than creative new proactive forms of detection of human trafficking.

In my research and analysis for this testimony, I have learned that alumni of this innovative team are currently working at other banks on proactive data analysis to detect human trafficking at the Superbowl 2018 that will be held in Minneapolis, Minn. on Feb 8th. With several important banks participating, and based on the success of the algorithms constructed to mine data and past experience with monitoring human trafficking at Superbowls, it can be anticipated that many dozens of well-founded cases of human trafficking will be identified during this period. This is the kind of best practice that the proposed legislation should be referring to, and providing a regulatory framework to encourage.

For those who are not data specialists, let me expand a little more on the composition of the teams working to construct the algorithms, the underlying mathematical tools that will be used to mine the extensive financial data possessed by members of the financial community. In the best example I found of innovation in the banking sector, a major bank, used computational data analysts, social scientists, and law enforcement investigators to construct their algorithms. This was done after reviewing the most recent trends in human trafficking patterns. In contrast to many anti-money laundering units that rely only on personnel with investigative experience, the addition of personnel with social science skills that understand human behavior and data patterns was key in improving the success rate for detection. It was also critical to translating law enforcement practice and insights into the patterns that can be searched for in the data.

In the best existing practices I identified, I did not find the application of new online tools by the banking community that could be combined with existing algorithms. At Carnegie Mellon University, a leading and long-time researcher of human trafficking, is using text based computational learning tools to analyze the texts of hospital and police data to mine large amounts of data effectively. This new analytical technique should be combined with the numerical based analysis of the banking community, as the ability to use different types of data would increase the success in uncovering human trafficking networks, and to increase the information available to law enforcement to make their prosecutions.

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[5] Louise Shelley and Christina Bain, "Hedging Risk by Combating Human Trafficking: Insights from the Private Sector," December 2014, http://www3.weforum.org/docs/WEF_Human_Trafficking_Report_2015.pdf.

The Financial Community and Beneficial Ownership of Real Estate

White attending a human trafficking conference in Congressman Pittenger's district in North Carolina, I learned of an innovative and important way to work with the banking community to address the facilitators of human trafficking. Unfortunately, according to the HSI investigator who spoke at the meeting, human traffickers operate along the I-95 corridor in North Carolina, and arranged for meetings of their trafficking victims with clients in low-level hotels in a North Carolina city that was also a locale of drug sales. The hotels were not complying with North Carolina regulations—they were not properly registering customers, learning their identities, and observing the codes of operation for the state. Law enforcement was not provided with an effective response from the owners of the hotels where the human trafficking was going on. Therefore, as innovative professionals they took another approach. The hotels where the trafficking was going on had mortgages from banks, and, therefore, it was possible to know **the identity of the owner because of the beneficial ownership**. As a result, law enforcement could explain to the banks that the hotels whose mortgages they held, might be closed for violation of state regulations. The banks, concerned that these mortgages might then go into default, pressured the hotel owners to change their modus operandi and require accurate hotel registries etc. There was a marked improvement both in the reduction of sex trafficking and drug sales after this pressure applied by the financial community. If the beneficial owners were not known, this best practice of law enforcement investigations would not be possible to implement on a larger scale.

Where are we now and where should we be going?

At present, there is not enough being done in the financial community to detect human trafficking. There are many employees of banks willing and eager to fight human trafficking. But many banks have reputational concerns that prevent them from being more forthright or activist in pursuing the traces of human trafficking within their large financial data. Moreover, we have a system of financial reporting that is not conducive to maximizing the results obtainable from the financial community. Banks can be penalized for not completing a sufficient number of SARs on time, and are not rewarded for innovative practices that help law enforcement find and make human trafficking cases. Existing fine programs could be expanded, such as that which will be discussed by Cyrus Vance, but even more can be done to provide a proactive response to targeting human trafficking cases.

The good news is:

1) Human trafficking still leaves a significant financial footprint that can be found with an in-depth understanding of how human trafficking operates and the development and use of effective data mining tools for large sets of financial data that the banking community possesses.
2) The availability of existing resources in banks, if used more effectively, would make it possible for human trafficking to no longer be a low-risk crime for traffickers.

3) Rather, existing tools, now available to bankers, can make the work of law enforcement easier, can help construct tighter cases, and can do this without compromising victims.
4) Modern social science methods, such as network analysis, data analytics, and text-based learning, are now available to improve the way that financial institutions operate.
5) Implementing these new measures can move reporting rates on human trafficking cases from a 15% success rate with standard SAR reporting to an 85% success rate in case detection, using existing personnel. Key to this is the proper mix of skill sets on an anti-money laundering team, and a response by the bankers to the ever-changing and flexible traffickers, who are always modifying their methods to reduce risk and evade detection. For this change in effectiveness to be achieved, banks need to adjust their mix of personnel, and regulators need to recognize other success measures than just the number of SARs filed.
6) Public-private partnerships exist between law enforcement and the banking community. They are working and need to be enhanced

What are the problems?

1) The regulation of the banking system favors reactive, rather than proactive responses, to the problem of money laundering. Therefore, many institutions play it safe. They follow the existing procedures for reporting suspicious transactions, they fail to innovate and identify the networks, the routes, and the victims of trafficking.
2) Existing systems of data mining of large financial data focus, far too often, only on the names of potential traffickers, rather than the broader range of information now available for analysis through the latest techniques in data analytics.
3) The existing system of filing only large numbers of SARs rather than engaging in innovate techniques is all too pervasive

Where do we go from here?

1) Passage of the H.R. 2219 is only the first step as there must be changes in regulatory practices and evaluations to allow the best practices to flourish.
2) In the period after the passage of the law, there must be a trial period in which there is regulatory relief from standard SARs filing for financial institutions with developed plans to engage in a proactive response to human trafficking.
3) There will be a need to expand public-private partnerships on the national level
4) There will be a need to incorporate text-based learning into the existing practices of data mining to help improve the data analytics.
5) There will also need to be mechanisms to encourage exchanges of best practices such as via workshops, conferences, and webinars, to communicate these best practices in secure ways.
6) There needs to be a way to ensure that best practices do not stay static as the criminals change their modes of behavior. Social scientists should play a larger

role in the future in helping the banking community understand the changes in behavior that will manifest themselves in new patterns in financial data.

7) Cryptocurrencies are being used to pay for human trafficking, and the banking community must develop techniques to detect these forms of payment for human trafficking. Analyses facilitating this are under development in top university computer science departments, and should be incorporated into banking practice.
8) As a member of the scientific committee of the Homeland Security Center of Excellence on Network Analysis (CINA) and someone leading its outreach function, I suggest that we can assume a larger role as a platform to communicate existing best practices, and to focus the tools we and those we work with are developing, to mine data. In this way, we can work with the banking community in fighting human trafficking more effectively.