

The Islamic State's Backdoor Banking

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Brief Analysis

Governments and financial institutions have taken laudable steps to curtail ISIS financing, but the group is still netting many millions from banks and informal money remitters in areas under its control or just nearby.

Sometimes described as the world's richest terrorist group, the Islamic State of Iraq and al-Sham (ISIS or ISIL) has famously raised tremendous amounts of money through oil smuggling, extensive criminal enterprises, kidnapping for ransom, and other means. Targeting the group's finances has therefore become one of the anti-ISIS coalition's five primary lines of effort. On March 19-20, the United States, Saudi Arabia, and Italy co-chaired the inaugural meeting of the Counter-ISIL Finance Group in Rome. The first goal laid out in the group's action plan is to prevent the self-styled Islamic State from using "the international financial system, including unregulated money remitters." This a significant step in the right direction because ISIS has found multiple backdoors into that system despite impressive efforts to restrict it from transferring funds.

WALLING OFF BANKS IN ISIS-CONTROLLED AREAS

Within the territory it controls, ISIS needs access to banks to avoid the risky business of operating entirely in cash, which is bulky and vulnerable to theft. It also needs such access abroad to facilitate the movement of foreign fighters and fund potential external operations. In a speech last October, then-Treasury undersecretary David Cohen explained that in order to make effective use of the funds it raises, ISIS depends on access to banking services in Syria and Iraq and the connectivity they provide to the wider international financial system. The department has therefore focused on curbing this access.

The problem is that scores of bank branches are located in areas of Syria and Iraq either controlled or contested by ISIS, including branches of international banks. In Iraq alone, approximately ninety such branches continue to operate in contested areas of Ninawa, Salah al-Din, Anbar, and Kirkuk provinces. Treasury has therefore embarked

on a joint program with Iraqi authorities, bank headquarters, and others in the international financial community to prevent ISIS from using those branches. Banks have looked closely for indications of ISIS financing and filed suspicious activity reports that U.S. authorities say have provided "valuable insight into financial activity in areas where ISIS operates." At the same time, the Central Bank of Iraq has instructed financial institutions to prevent wire transfers to and from banks located in ISIS-held areas, while international banks with regional branches in these areas have relocated their staff. For example, Mosul Development Bank -- the sole Iraqi bank headquartered in that ISIS-controlled northern city -- moved its center of operations to Baghdad.

Yet despite these efforts, ISIS still has ample access to banking services. In Syria, the Assad regime not only allows banks to continue servicing branches in ISIS-held areas, it also appears to use these services to further its own business interests with the Islamic State. On March 7, for example, the European Union sanctioned a Syrian businessman with close ties to Damascus for serving as a middleman in regime deals to purchase oil from ISIS.

In a new report on ISIS financing issued last month, the Financial Action Task Force (FATF) -- the multinational body that develops and promotes policies to counter illicit financial activities -- found that "more than 20 Syrian financial institutions with operations in ISIS-held territory" continue to do business there. Moreover, these bank branches remain "connected to their headquarters in Damascus; and some of them may maintain links to the international financial system." Fortunately, most major financial institutions abroad likely severed their ties to these banks in past years due to U.S. and EU sanctions targeting the Central Bank of Syria and other local institutions. Yet the FATF report underscored that banks operating in ISIS territory are still able to liaise with certain jurisdictions, though it did not list these questionable jurisdictions by name. And even when access to local banking services is blocked, the wartime conditions and the underdeveloped state of Syria's banking sector "are forcing funds into financial institutions in the immediate surrounding region."

That is the case in Iraq as well: ISIS is able to access international financial services in territories just beyond its areas of control. One case study cited in the FATF report highlighted the group's continued ability to receive money transferred to nearby areas or to designated individuals, whether through bank-issued electronic funds transfers (EFTs) or alternative money transfer systems. According to "sensitive financial information" collected by U.S. authorities, these transfers were often received "in areas known to be a funding, logistical and smuggling hub for foreign terrorist fighters and terrorist organizations." In other cases, "excessive cash deposits" were placed into U.S. accounts and then sent via bank wire transfers to recipients near areas where ISIS operates. Unknown persons have also made foreign cash withdrawals via ATMs in such areas, obtaining money from U.S.-based bank accounts using check cards. In some cases these transactions were closely coordinated, with large deposits to the accounts followed by immediate withdrawals from ATMs near ISIS territory. The Netherlands reportedly found similar indications that foreign terrorist fighters were using debit cards "linked to their national bank accounts when withdrawing money from ATMs alongside those areas where ISIS operates."

ISIS uses adjacent areas not only to access foreign funds, but also to cull money from Iraqi government officials still working in its territory. For example, Baghdad may be paying up to \$130 million every month to government workers in Mosul alone. The city's formal banking system was shut down after ISIS took over, so "department emissaries are sent into Iraqi or Kurdish territory [to] collect salary money." When these officials return to disburse the funds, ISIS naturally takes a cut off the top -- according to the FATF report, the group "could potentially profit hundreds of millions of USD annually from taxing these salary payments."

INFORMAL BANKING SCHEMES

Beyond the formal banking system, ISIS can also send and receive funds through nearby foreign money remitters. Finnish authorities reported to FATF that a common method of getting funds to foreign fighters is to send it via "money remitters who have agents operating in border areas close to ISIS-held territory. This is to finance them once

they are in Syria/Iraq." Dutch authorities have noted similar activity and "regard it as highly likely that...intermediaries transport cash to areas near territory occupied by ISIS."

ISIS operatives have come up with other schemes as well. For example, Saudi authorities reported to FATF that individuals associated with the group had solicited donors via Twitter and told them to establish contact via Skype. The operatives then asked these donors to purchase international prepaid cards (e.g., mobile phone credit, store credit) and send them the card numbers via Skype. The information would eventually reach a follower near ISIS-held territory in Syria, who could then sell it and take the resulting cash to the group.

CONCLUSION

The Iraqi government and other financial actors have taken laudable steps to curtail the Islamic State's ability to store and transfer funds through banks in areas under its control. When possible, assets have been removed, banks shuttered, and headquarters and staff relocated. But ISIS still has access to banks in Syria and to informal money remitters, and its reach does not stop at the Islamic State's "borders."

One of the goals of the Counter-ISIL Finance Group is to provide technical assistance and develop new countermeasures to contend with jihadist efforts to raise and move money. Closing the door on the Islamic State's backdoor banking should be one of the group's first objectives.

Meanwhile, the Treasury Department continues to work bilaterally with governments in the region and around the world to cut ISIS off from the international financial system. Last week, a Treasury delegation visiting the region warned that banks need to be on the lookout for ISIS money transfers from Persian Gulf countries through Turkey or Lebanon.

Clearly, though, these efforts need to be coupled with programs directed at vulnerable access points on the immediate peripheries of ISIS territory. The goal here should be strict regulation and transparency, not eliminating all money flows into these border areas. The latter is neither realistic nor advisable, as a collapsed economy would only worsen the humanitarian crisis and hurt innocent civilians who are effectively ISIS hostages trying to survive one day at a time. But without greater oversight and control over the flow of funds to areas in the Islamic State's "near abroad," the group will continue using backdoors to fund its brutality and terrorism in Syria, Iraq, and elsewhere.

Matthew Levitt is the Fromer-Wexler Fellow and director of the Stein Program on Counterterrorism and Intelligence at The Washington Institute. Previously, he served as deputy assistant secretary for intelligence and analysis at the Treasury Department. ♦

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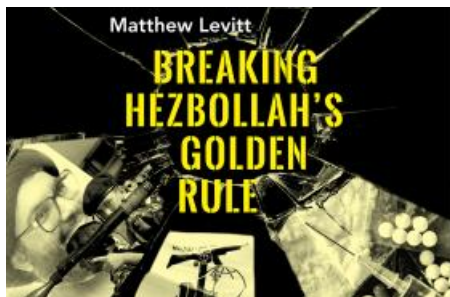
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