

# Including Modern Slavery and Human Trafficking in National Money Laundering and Terrorist Financing Risk Assessments

## Guideline

Simon Zaugg

June 2023



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## **About FAST**

Finance Against Slavery and Trafficking (FAST) is a multi-stakeholder initiative based at United Nations University Centre for Policy Research (UNU-CPR) that works to mobilize the financial sector against modern slavery and human trafficking. Through its alliance-building approach and grounding its work in evidence-based approaches and rigorous analysis, FAST provides tools and training to financial sector stakeholders to take meaningful, sustained action against modern slavery and human trafficking. UNU-CPR is an independent think tank within the UN system based in New York. It combines research excellence with deep knowledge of the multilateral system to generate innovative solutions to current and future global public policy challenges.

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## **Disclaimer**

The views and opinions expressed in this research report do not necessarily reflect the official policy or position of the United Nations University.

## **Acknowledgements**

This guideline is the result of an ad-hoc project group consisting of representatives from the FAST initiative and the World Bank. It provides guidance and a compilation of best practices for agencies responsible for conducting and leading a country's National Money Laundering and Terrorist Financing Risk Assessment (NRA), helping to ensure modern slavery and human trafficking are addressed more comprehensively in NRAs. The guideline benefitted from a review by the International Monetary Fund, the European Commission, and the Economic Crime and Cooperation Division of the Council of Europe.

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# Introduction

The Financial Action Task Force (FATF) requires countries to demonstrate an understanding of the money laundering and terrorist financing (ML/TF) risks within their jurisdictions. Such an understanding is the foundation for an effective control of ML/TF and its predicate offences under a risk-based approach.<sup>1</sup> The FATF guidance, *National Money Laundering and Terrorist Financing Risk Assessment*, defines risk as a function of three factors: threat, vulnerability, and consequence. A threat is defined as a person or group of people, an object, or an activity that has the potential to cause harm to, for example, a state, society, or economy. It typically serves as an essential starting point in developing an understanding of ML/TF risk. Vulnerability comprises those things that can be exploited by the threat or that may support or facilitate its activities. In the ML/TF risk assessment context, looking at vulnerabilities means focusing on the factors that represent weaknesses in anti-money laundering and combating the financing of terrorism (AML/CFT) systems or controls. Finally, consequence refers to the impact or harm that ML or TF may cause and includes the effects of underlying criminal and terrorist activities on financial systems and institutions, as well as economies and societies more generally.

NRAs should involve making judgments about threats, vulnerabilities, and consequences. The FATF states in its guidance that, given the challenges in determining or estimating the consequences of ML and TF, it is accepted that countries may opt to focus primarily on achieving a comprehensive understanding of the threats and vulnerabilities. FATF guidance further indicates that an ML/TF risk assessment comprises three stages: the identification stage, the analysis stage, and the evaluation stage. The identification stage starts by developing an initial list of potential threats and vulnerabilities that countries face in a ML/TF context. The analysis stage involves consideration of the nature, sources, likelihood, and consequences of the identified threats or vulnerabilities, whereas the evaluation stage determines priorities to address these threats and vulnerabilities.

NRAs determine a country's priorities in the fight against ML/TF and its predicate offences, and also outline a country's strategies to tackle these issues. The predicate

offences with the highest ML/TF risks identified through the NRA should be priorities for the allocation of resources and the focus of intelligence gathering and investigations. To assess ML/TF risks appropriately, the agencies responsible for conducting and leading an NRA (hereinafter, competent agencies) need to know how to access and compile available data and information on specific predicate offences.

Underreported crimes, such as modern slavery and human trafficking (MS/HT), which includes forced labour, child labour, and sexual exploitation, are often not effectively assessed by the competent agencies during the risk assessment process. This happens because the competent agencies might not be aware of the extent of these crimes, and they do not know how to access alternative, reliable quantitative and qualitative information.

This report has two objectives. First, to raise awareness on the need for competent agencies to effectively assess and incorporate MS/HT threats and vulnerabilities more comprehensively in their NRAs; and second, to provide guidance on how competent agencies can find and access cogent and robust quantitative and qualitative information to get a more objective picture of the extent of the threats and vulnerabilities related to MS/HT. The estimated number of unreported cases for this predicate offence is considered to be extremely high.

NRAs are critical for enhancing awareness of MS/HT-related ML/TF risks and are therefore extremely important for tackling this crime more effectively. It is assumed that increased awareness and improved guidance, if taken on board by competent agencies, will lead to a more comprehensive picture of MS/HT in future NRAs, meaning that MS/HT will be given a much higher priority in national efforts to fight ML/TF. Consequently, the number of suspicious activity reports (SARs) with a nexus to MS/HT as a predicate offense will likely increase, leading to more investigations and convictions of traffickers and enslavers, and ultimately, to more remedy for victims and survivors.

The structure of this guideline follows the structure of a risk assessment process, as described in the FATF guidance, *National Money Laundering and Terrorist*

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<sup>1</sup> Joras Ferwerda and Peter Reuter, *National Assessments of Money Laundering Risks: Learning from Eight Advanced Countries' NRAs* (Washington: International Bank for Reconstruction and Development/The World Bank, 2022). Accessible at: <https://openknowledge.worldbank.org/bitstream/handle/10986/37305/IDU02386c9b80f623045e70bf8a09a30b6162595.pdf?sequence=1&isAllowed=y>.

*Financing Risk Assessment*. Particular attention is paid to the first stage, the identification stage. This is because at this stage, as described above, an initial list of potential threats and vulnerabilities is developed, and if MS/HT is not considered, or not considered enough at this stage of the risk assessment process, it is highly unlikely that MS/HT will feature in an NRA. This guideline then addresses the importance of including MS/HT in NRAs, through a

comparison of worldwide estimates of MS/HT with an internal NRA analysis conducted by FAST and a report on sub-Saharan African NRAs published by FAST in March 2023, and it provides examples of NRAs effectively addressing MS/HT. The guideline subsequently discusses what the main focus areas should be to better identify and assess MS/HT threats and vulnerabilities in an NRA.

## The Importance of Including MS/HT in NRAs

There are an estimated 49.6 million people in conditions of MS/HT globally.<sup>2</sup> Each year, these crimes generate \$150 billion in profits through the exploitation of people.<sup>3</sup> This means that human exploitation is the most pervasive criminal economy in the world.<sup>4</sup> However, region- or country-specific figures on SARs, investigations, prosecutions, as well as asset freezes and seizures, do not seem to reflect these worldwide estimates.

In 2021, FAST conducted an internal analysis of a sample of 27 NRAs from all regions of the world. The goal of this exercise was to find out if MS/HT is addressed in NRAs, and if so, to what extent and depth. Out of the 27 NRAs, only eight (30 per cent) mentioned MS/HT and further elaborated on these crimes. This means that more than two-thirds of the analysed NRAs did not discuss MS/HT in any depth (either MS/HT was not mentioned at all or it was mentioned but without further elaboration).

A [report](#) published by FAST in March 2023 focused on the NRAs of 38 countries in Sub-Saharan Africa. The results showed that 20 (53 per cent) of the analysed NRAs addressed MS/HT in detail. Although this means that the NRAs of countries in Sub-Saharan Africa are more likely to deal with MS/HT in detail, compared to those covered by FAST's internal global analysis, almost half (18 or 47 per cent) still do not address MS/HT comprehensively.

Both reports identified that even in countries with NRAs that address MS/HT comprehensively, the number of

MS/HT SARs, as well as investigations and convictions of traffickers, do not seem to reflect the scale of the threat: there appears to be a clear gap between the worldwide threat of MS/HT and the cases of MS/HT that are detected. Given that only a few countries have identified this predicate offence as a priority, the detection gap could be reduced if countries reflect MS/HT more comprehensively in their NRAs.

The gap between the worldwide threat of MS/HT and detected cases of MS/HT is a common characteristic of an underreported crime. Thus, as a general remark, it is advisable to draw inspiration from other underreported crimes during the analysis of MS/HT in the risk assessment process. Competent agencies may wish to consider how other specific underreported crimes, such as environmental crimes, terrorist financing, or crimes related to proliferation financing, have been assessed effectively in NRAs. They may consider methodologies used for assessing the ML/TF risks of these underreported crimes. For example, the Royal United Services Institute (RUSI) published the [Guide to Conducting a National Proliferation Financing Risk Assessment](#) in 2019. This guide aims to assist governments in conducting an NRA on proliferation financing. The World Bank provides [specific NRA toolkits](#) on its website. *Inter alia*, terrorism financing, virtual assets as well as environmental and natural resources crimes are addressed.

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<sup>2</sup> International Labour Organization (ILO), International Office for Migration (IOM), and Walk Free, *Global estimates of modern slavery: Forced labour and forced marriage* (Geneva: ILO, 2022). Accessible at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---ipec/documents/publication/wcms\\_854733.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_854733.pdf).

<sup>3</sup> ILO, *Profits and Poverty: The Economics of Forced Labour* (Geneva: ILO, 2014). Accessible at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---declaration/documents/publication/wcms\\_243391.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/publication/wcms_243391.pdf).

<sup>4</sup> Global Initiative against Transnational Organized Crime, *Global Organized Crime Index 2021* (Geneva, 2021). Accessible at: <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021.pdf>.

There are several good examples of countries that address MS/HT comprehensively in their NRAs. These include:

- [Benin \(2018, in French\)](#)
- [France \(2023, in French\)](#)
- [Georgia \(2019\)](#)
- [Malawi \(2018\)](#)
- [Philippines \(2016\)](#)
- [United States \(2022\)](#)

It is important to note that the risk assessment process should be undertaken within appropriate intervals

to address emerging risks and to inform appropriate response strategies and prioritization, especially in a dynamic environment such as the MS/HT context. Crises that have an impact on the MS/HT situation of a country or region might emerge quickly. For instance, in the context of the war in Ukraine, all refugees are vulnerable and may be at significant risk of MS/HT.<sup>5</sup> This requires a flexible and agile approach to the risk assessment process. However, an agile approach includes not only undertaking a full NRA, but also, for example, developing a detailed crime report on MS/HT, which might be warranted to help improve understanding of the MS/HT threat (not only in an emerging crisis) and implement appropriate actions.

## How to Better Identify and Assess MS/HT Threats

While awareness raising is important, it alone will not automatically lead to more NRAs addressing MS/HT comprehensively. Competent agencies often do not know what kind of alternative information sources can be analysed. Especially for a crime like MS/HT, which is underreported, only consulting SARs, criminal investigations, and convictions, as well as the volume of proceeds, is misleading. The low numbers related to MS/HT might lead to the conclusion that the threat is small. However, if we look at the above-mentioned estimates of proceeds generated from MS/HT, the obvious conclusion is that the estimated number of unreported cases in this area is high. The purpose of this section is to provide competent agencies with guidance and concrete examples on what alternative information sources can be consulted in the risk assessment process to better identify and assess MS/HT threats. As mentioned above, it is essential that potential threats are identified as the first step in a risk assessment process. If MS/HT threats are not addressed at this initial stage, it's unlikely that MS/HT will feature in an NRA.

It is important to note that the following quantitative and qualitative information sources can also be used to identify and assess MS/HT vulnerabilities, depending on the source's content.

### Consult Publicly Available Information Sources

The following publicly available sources on MS/HT should be consulted during the identification stage of the risk assessment process to understand the scope and extent of MS/HT threats:

[Global Estimates of Modern Slavery: Forced Labour and Forced Marriage](#) (International Labour Organization, Walk Free and International Organization for Migration, 2022). This report assesses the situation of MS/HT in the world today and the key policy priorities for ending it among children by 2025, and universally by 2030, in accordance with the target dates set by the international community in the 2030 Sustainable Development Goals (SDGs).

[The Global Slavery Index](#) (Walk Free, 2023). The Walk Free Foundation's *Global Slavery Index* provides a measurement of the size and scale of MS/HT worldwide, as well as an assessment of country-level vulnerability and governmental responses.

[Trafficking in Persons Report](#) (US Department of State).<sup>6</sup> This report is a comprehensive resource for governmental anti-trafficking efforts, which places countries in tiers

<sup>5</sup> IOM, "IOM Warns of Increased Risk of Trafficking in Persons for People Fleeing Ukraine," IOM, 16 March 2022, <https://www.iom.int/news/iom-warns-increased-risk-trafficking-persons-people-fleeing-ukraine>.

<sup>6</sup> Updated on an annual basis.

ranging from Tier 1 (countries whose governments fully meet the Trafficking Victims Protection Act's minimum standards for the elimination of trafficking) to Tier 3 (countries whose governments do not fully meet the Trafficking Victims Protection Act's minimum standards and are not making significant efforts to do so). Various sources of information contribute to the report: U.S. embassies, government officials, non-governmental organizations (NGOs), international organizations, published reports, news articles, academic studies, consultations with authorities and organizations in every region of the world, and information directly submitted to the US Department of State by organizations and individuals.

Reports on MS/HT by FATF and FATF-style regional bodies (FSRBs): FATF and some of the FSRBs have published reports on MS/HT which might be relevant for the competent agencies of countries in the respective region during the risk assessment process. The following reports are publicly available:

- FATF & Asia/Pacific Group on Money Laundering (APG): [Financial Flows from Human Trafficking](#) (2018)
- Caribbean Financial Action Task Force (CFATF): [CFATF Typologies Report on Human Trafficking and the Smuggling of Migrants](#) (2014)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG): [Typologies Project Report on Money Laundering related to Trafficking in Persons in the ESAAMLG Region](#) (2011)
- Middle East and North Africa Financial Action Task Force (MENAFATF): [Money Laundering Resulting from the Human Trafficking and Migrant Smuggling Crimes](#) (2021).

[Global Report on Trafficking in Persons](#) (United Nations Office on Drugs and Crime (UNODC), 2022). This report draws on data from 141 countries and provides an overview of the response to trafficking in persons at global, regional, and national levels, by analysing trafficking cases detected between 2018 and 2021. A major focus is on trends related to detections and convictions. The UNODC also provides [specific country profiles](#) with useful information and statistics.

[Group of Experts on Action against Trafficking in Human Beings \(GRETA\) Reports](#) (if applicable) (Council of Europe). GRETA was set up pursuant to Article 36 of the Council of Europe Convention on Action against Trafficking in Human Beings, which entered into force on 1 February 2008. GRETA is responsible for monitoring

the implementation of the Convention by the parties and for drawing up reports evaluating the measures taken by each party. GRETA evaluates the implementation of the Convention following a procedure divided into rounds.

[Country visit reports by the Organization for Security and Co-operation in Europe \(OSCE\) Special Representative and Co-ordinator for combatting trafficking in human beings](#) (if applicable). Country visits serve to establish a direct and constructive dialogue with participating States on anti-trafficking policy. During country visits, the Special Representative holds consultations with government authorities, parliamentarians, and representatives of the judiciary and NGOs on MS/HT issues, and aims to share knowledge and good practices. After each visit, the Special Representative writes a country report, underlining promising practices of the country, as well as challenges discussed and areas where anti-trafficking policy could be enhanced. The report contains a few concrete and focused recommendations to support the country in enhancing the implementation of OSCE anti-trafficking commitments.

National Anti-Trafficking Strategy and Action Plans: National Anti-Trafficking Strategy and Action Plans are prepared by some countries and should be consulted in order to get an overview of a country's priorities and to locate new stakeholders relevant to the risk assessment process.

## **Include Stakeholders beyond Traditional AML/CFT Players in the Risk Assessment Process**

Since typical sources of information, such as SARs or investigations in the area of MS/HT, are not necessarily representative of the extent of the threat, alternative sources should be consulted. These include, for example, NGOs that are dedicated to the fight against MS/HT. These organizations often have a wealth of relevant information that can shed light on the MS/HT situation in a country. There are NGOs that operate hotlines for victims and survivors of MS/HT. For instance, the NGO [Polaris](#) has operated the National Human Trafficking Hotline, in the United States, since 2007, which provides 24/7 support and a variety of options for the survivors of MS/HT to get connected to help and stay safe. Thanks to the hotline, Polaris maintains one of the most extensive data sets on the issue of MS/HT in the United States. From 2007 to 2020, the NGO collected data from a total of 328,000 contacts (calls, webforms, and emails). There are excellent examples of websites that provide an overview of hotlines in specific regions, such



as the website of the [Migration and Home Affairs of the European Commission](#), which covers national human trafficking hotlines in Europe.

Also, survivor-led NGOs can support competent agencies in providing relevant information and unique perspectives for enhancing the comprehensiveness of an NRA. [Footprint to Freedom](#) or [Timea's Cause](#) are excellent examples of organizations founded and run exclusively by survivors.

Governmental institutions related to the topic may be an additional source of information. This includes women's, children's, labour, and social ministries, as well as customs and border authorities. As an example, the US [Department of Justice](#) lists resources and government institutions in the United States that play a role in the fight against MS/HT, such as the [Office of Juvenile Justice and Delinquency Prevention](#), the [Department of Health and Human Services](#), the [Office for Victims of Crime](#), as well as the [Bureau of Justice Assistance Training and Technical Assistance Center](#). This example should give competent agencies an idea about what role government institutions can play to tackle MS/HT, and the information they can provide to help identify and assess MS/HT threats.

Moreover, competent authorities should include a national anti-trafficking coordinator in risk assessment

processes. The coordinators play a fundamental role in the development of national priorities and aligning efforts across a particular region. They also enhance a country's counter trafficking efforts and facilitate interactions between different state and non-state organizations in relation to the fight against MS/HT.

## Gather Information from Similar Jurisdictions

Similar jurisdictions whose MS/HT threats are better documented or more easily accessible are another useful source of information. These jurisdictions may have already conducted a risk assessment and have MS/HT data and statistics readily available. They may have been involved in an MS/HT case, the details of which may be publicly accessible. Or the jurisdiction may be otherwise willing to share the case details. Similar jurisdictions are those that have comparable economic, social, geographic, or other contextual conditions. Similar jurisdictions from the same region would be even more useful from an analysis point of view since they may involve networks that are operational in multiple jurisdictions in that region, including the jurisdiction undertaking the risk assessment.

# How to Better Identify and Assess MS/HT Vulnerabilities

The other component of the identification stage of a risk assessment process besides threat is vulnerability. As described above, vulnerability comprises those things that can be exploited by the threat or that may support or facilitate its activities. In the ML/TF risk assessment context, looking at vulnerabilities means focusing on the factors that represent weaknesses in AML/CFT systems or controls. The purpose of this section is to provide guidance and specific examples to competent agencies on what they should focus on during the risk assessment process to better identify and assess vulnerabilities specifically relevant in the MS/HT context. Annex II (page 39 ff.) of the FATF guidance, [National Money Laundering and Terrorist Financing Risk Assessment](#), can be consulted to find further examples of factors that may be considered to help identify relevant vulnerabilities that can be applied to the MS/HT context. The annex is arranged according to the analytical framework

known as 'PESTEL' (an acronym based on the first letters of the major categories: political, economic, social, technological, environmental, and legislative).

## Delayed and Ineffective Information Sharing, Coordination, and Cooperation at the National and International Level

The following circumstances may constitute a vulnerability in the MS/HT context when it comes to information sharing, coordination, and cooperation. On a national level:

- Feedback mechanisms from law enforcement agencies to Financial Intelligence Units (FIUs) and

then to the private sector to detect suspicions of MS/HT are unstructured.

- Money flows generated from MS/HT are not interrupted, the overall cases investigated and the number of prosecutions and convictions do not reflect the estimated figures in the respective jurisdiction, and remedy for victims is not enabled.
- There are no well-structured cooperation and information sharing mechanisms between responsible agencies, including reporting entities, and MS/HT data collection is weak.
- Relevant agencies do not share their insights, collected from their investigations and experiences around evolving modus operandi of criminals and typologies in relation to MS/HT, with the FIU.
- The entities involved in the risk assessment process do not have a good understanding of MS/HT and there is a lack of comprehensive statistical data to assess MS/HT threats.
- The approach to combatting MS/HT is fragmented. Different agencies hold the same mandate and there is no structured collaboration in relation to the sharing of data and intelligence.

On an international level:

- Intelligence gaps exist in relation to the nature and scale of MS/HT, the nature of the proceeds generated, and how the proceeds are laundered.
- Information sharing, coordination, as well as cooperation on an international level, are of limited importance to the jurisdiction.
- The country does not actively and effectively render and request international cooperation relating to MS/HT and related ML investigations, prosecutions, and asset forfeiture matters.
- Agencies such as Europol and Interpol are not involved. Moreover, international cooperation is solely the responsibility of law enforcement authorities, without the involvement of supervisory, customs, and other relevant authorities.
- Broad legal basis and mechanisms, as well as defined channels and processes, to enable cooperation on MS/HT cases are not in place.

## The Level of Financial Exclusion

In the [FAST Blueprint](#), financial exclusion is shown to be a risk multiplier that increases vulnerability to becoming a victim of MS/HT. Financial exclusion is also a consequence of the experience of being trafficked or exploited, leaving survivors vulnerable to re-exploitation/victimization.

Barriers to accessing financial services for the survivors of MS/HT are often linked to not having identification documents or not having a permanent address. They can also be due to survivors having criminal records and/or a 'bad credit' status as a result of their exploitation. Survivors' lack of access to financial remedy because of the limited seizure and recovery of perpetrators' assets further increases their financial exclusion.

According to the FATF's [Stocktake of Unintended Consequences of the FATF Standards](#), financial exclusion can be one of the unintended consequences of misapplication of the FATF Standards at the country or private sector level. FATF points in particular to "the failure to use the proportionality that is central to the risk-based approach" as leading to or exacerbating financial exclusion. For example, the risk-based tools within the FATF Standards (such as exemptions and simplifications) are underutilized by the countries that need them the most to expand financial inclusion.<sup>7</sup>

The following circumstances can specifically contribute to increased financial exclusion and thus constitute a vulnerability in the MS/HT context: Products and services offered by financial institutions (1) are not exempted from some AML/CFT controls based on proven low risks; (2) do not benefit from a simplified due diligence regime, based on evidence of lower risks; or (3) are not submitted to standard customer due diligence supported by the use of new or alternative forms of identity documentation, including digital solutions. Moreover, banking supervisors and regulators at a national level that fail to provide guidance on the flexibility of the FATF Standards in low-risk situations can also constitute a vulnerability.

Building on lessons from the FAST [Survivor Inclusion Initiative](#), the Financial Consumer Agency of Canada (FCAC), in collaboration with the Canadian FIU (FINTRAC), issued [technical guidance](#) for financial institutions in February 2023 to directly address the narrow interpretation of the flexibility that the Bank Act in Canada affords to consumers who do not present

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<sup>7</sup> Kuntay Celik, *Impact of the FATF Recommendations and their implementation on financial inclusion – Insights from mutual evaluations and national risk assessments* (Washington: International Bank for Reconstruction and Development/The World Bank, 2021). Accessible at: <https://documents1.worldbank.org/curated/en/597781637558061429/pdf/Impact-of-the-FATF-Recommendations-and-their-Implementation-on-Financial-Inclusion-Insights-from-Mutual-Evaluations-and-National-Risk-Assessments.pdf>.

standard ID. It states that there is an expectation for banks to actively support customers' financial inclusion and underlines exactly how access to financial services for MS/HT survivors and other vulnerable groups can be safely supported in compliance with all existing rules and regulations.

## **Absence of or Insufficient Training**

Relevant governmental institutions and financial institutions, which have the obligation to report

suspicious cases to the authorities, are an important source of information to better detect suspicions of MS/HT. However, they have to be aware of the crime and receive training accordingly to effectively detect, analyse, and disseminate financial intelligence and information on MS/HT and related ML/TF, and consequently support the investigation of these crimes, including asset forfeiture investigations nationally and internationally. An absence of such training or the provision of insufficient training in both the private and public sectors can constitute another important vulnerability in the MS/HT context.

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