



The Mekong Club Financial Services Working Group

# MODERN SLAVERY: A RESOURCE GUIDE FOR THE BANKING INDUSTRY

December 2016

# A RESOURCE GUIDE FOR THE BANKING INDUSTRY

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## FOREWORD

As the main gateway through which 70 percent of modern slavery and trafficking flows, the private sector is in a unique position to turn the tide in the fight against this insidious crime. At the heart of modern-day slavery is the arterial ebb and flow of money, moving in waves around the world. Annual profits from modern-day slavery are estimated at US\$150 billion, and these proceeds are undoubtedly finding their way into the global financial system.

Being on the front lines of the system, the financial services industry has a distinct advantage in being able to identify suspicious activity. With the right training, this sector can be equipped to identify new money laundering trends that may be linked to slavery and in doing so, can also help to offset the risk to their own organisation from illegal and fraudulent businesses.

Recognition of modern slavery and human trafficking issues in Hong Kong is low among financial institutions. The steps that most are taking to eradicate slavery involve referring to their existing anti-money laundering (AML) protocols. But there is consensus that broader understanding of what to do to address the issue is lacking.

We, at the Mekong Club, have been very encouraged by the commitment and leadership demonstrated by the members of our Financial Services Working Group, an interbank forum of key companies who meet regularly to learn, share best practices, and collaborate to find solutions that aim to provide tangible results in the fight against modern slavery. These companies have identified the need for this guide, which provides further training on how banks in Hong Kong can better address the monetary elements of modern slavery and trafficking.

Through this publication, we hope to provide further information on this issue. We will also provide a more formalized approach for financial institutions to implement moving slavery and trafficking higher up the AML agenda, as well as providing guidance on the types of red flag indicators and questions front line staff can be asking to ensure impactful/swift action.

We encourage all financial institutions to use this guide. Doing so will help implement real, tangible change that will impact millions of lives for the better.

~ The Mekong Club





MODULE ONE

**MODERN SLAVERY:  
UNDERSTANDING  
THE PROBLEM**



## BACKGROUND

Every four seconds, someone is sold into modern slavery somewhere in the world. Every 60 seconds, the criminal industry that supports modern slavery makes more than US\$285,000. These statistics, calculated from estimates by the International Labor Organization (ILO)<sup>1</sup>, reveal the size and international scope of modern slavery and trafficking, a system that treats human beings as a commodity. These crimes happen in urban metropolises and in remote rural areas, in developing and developed nations. Modern slavery touches nearly every supply chain and no industry is exempt.

The sums of money involved are so high, this lucrative and globally pervasive industry is one of the fastest growing criminal enterprises and sits behind the drug trade as the most profitable organised crime. Per the United Nations, profits from modern slavery and human trafficking are estimated to be as high as US\$150 billion a year. This sum is generated through the slavery; abuse and exploitation of an estimated 45.8 million people.<sup>2</sup>

A crime that relies heavily on access to financial institutions, a wide range of organisations are not only destinations for slavery and trafficking proceeds, but also conduits to financing every step of the slavery and trafficking journey. Recognizing their central importance to slavery and trafficking operations, financial institutions are seeking ways to strike back. Stopping the arterial flow of money will cause the beast of modern-day slavery to atrophy and shrink, although no one is under the illusion that it can ever disappear completely. That reality must not and should not lessen our efforts to staunch the sustenance (money) that feeds the beast.

# HEARING VICTIMS' VOICES: THE CASES



The basic characteristics of modern slavery include:

- Use of fraud or deception to trick a person into an exploitative labour situation;
- Use of debt, violence, or threats to hold the person in place; and
- Lack of any payment in exchange for services provided.

In essence, the person loses control of his/her life and is enslaved. Human trafficking goes far beyond women and girls who are forced into prostitution. Men, women, and children are stolen, deceived, or seduced into opportunities that do not exist; instead, they become slaves. One of the best ways to quickly understand the complexity and sheer horror of modern slavery is to listen to their stories.

## FORCED LABOUR - FISHING BOAT CASE:

*"I was only 16 years old when I was forced onto that fishing boat. I was told that the job was easy and that I'd be paid a good wage. But instead, I ended up working 18 hours a day, every day. For food, we ate nothing but fish and rice twice a day. If I got sick or injured, I worked. I had seen others who had fallen ill and the captain simply threw them over the side of the boat. I still remember their pleas for help as the ocean carried them away to their deaths. I was beaten if I didn't work hard enough, or even if I did. Days often went by with only a few hours of sleep. I was so tired sometimes I felt I'd go crazy. To keep me working, they would force me to take powerful drugs that destroyed my body. When I finally returned to port after four years at sea, I was not given any pay. The captain told me that I was an illegal migrant so he didn't have to give me anything. Having no way to communicate with my family while I was away, my mother and father assumed I was dead. Since they moved away, I don't know where to find them."*

**Male Cambodian victim exploited in Thailand.**



## FORCED LABOUR – SWEAT SHOP:

*“When I was 16 years old, I heard that many spinning mills in a big city in my region offered work. My family was very poor and I wanted to help, so I went there. I didn’t know which one had work, so I just chose one. The man who managed the mill said I could have a job. We negotiated a salary of US\$50 a month. He said that I had to live in the factory site. There was no contract for me to sign but for me this was a huge amount of money so I accepted and started working immediately. After working 18 hours a day for the first month, I went to the employer and asked for my pay. He smiled and laughed before saying, “I am sorry, I forgot to mention to you that it costs me US\$54 a month to keep you here and I am only paying you US\$50. So you owe me money. Until you pay it back, you cannot leave this place.” With armed security guards, barbed wire, and high walls, I couldn’t escape. For three years, I was not able to leave. I could not contact my family. The more I worked, the more debt I owed. With so much work with nothing in return, my heart was filled with hopelessness and despair. If that fire hadn’t brought the authorities, I would never have been able to leave. I lost three years of my life. Gone... stolen from me. Something I can never get back again.”*

**Female Indian victim exploited in India.**

## FORCED LABOUR – CONSTRUCTION:

*“When I arrived at the construction site, I was so excited. The foreman told me that I could get a good job. While he said he couldn’t pay me for the first three months, I didn’t mind. He seemed like a respectable person. Every day I worked from 7:00 a.m. to 7:00 p.m. The work was hard and dangerous, but that was okay. After three months, I went to get my pay. But the foreman told me that I’d have to wait another two months. While I wasn’t happy, what else could I do? I borrowed more money from my friends and continued to work. But each time I asked for my wages, I was told the same answer—next month. After 12 months passed, I was desperate. I was heavily in debt without any money. When I had heard that there were others like me, we all got together and as a group we approached the foreman. This angered him greatly. The next day, a van pulled up and the police took us all away. The foreman stood there and smiled. It was he who called them there. At that moment, I could tell that he had never intended to pay any of us. Two weeks later, I was deported. For an entire year I worked for nothing. For an entire year, I was a slave.”*

**Male Laotian victim exploited in Vietnam.**



# MODERN SLAVERY: AN OVERVIEW OF THE DATA

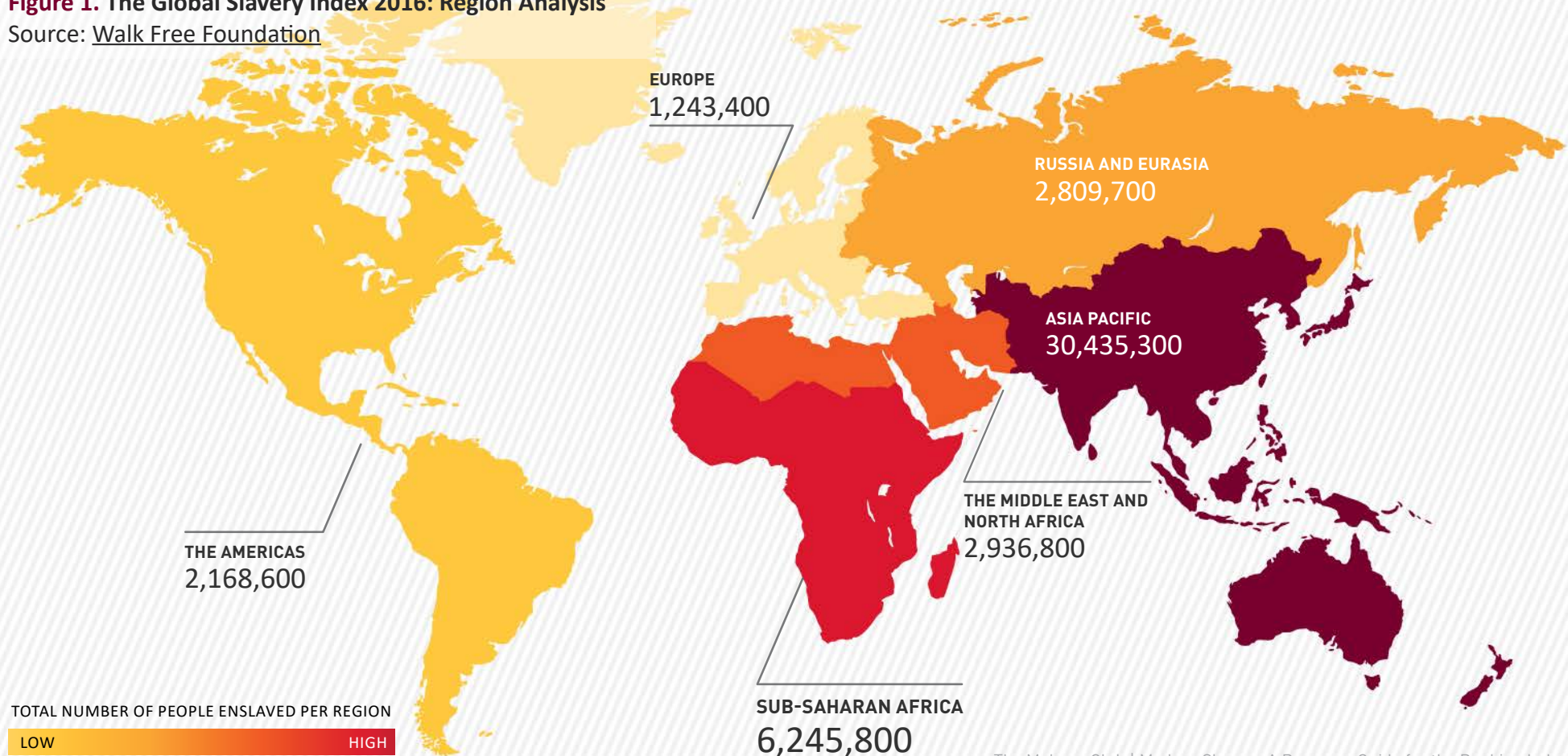
## GLOBAL OVERVIEW

As you can see from the stories above, the situations and locales may change but the issue remains the same: a person is turned into a slave through no fault of their own. It is also not just a so-called Third World crime. The issue of modern slavery affects almost all parts of the world. While most people think that slavery was abolished hundreds of years ago, globally there are an estimated 45.8 million

men, women, and children trapped in these situations<sup>3</sup>. This means there are more slaves today than there are Canadians. In fact, there are more slaves today than any other time in history. These victims, who can be found in factories, construction sites, within fisheries and sex venues, are forced to work for little or no pay, deprived of their freedom, and often subjected to unimaginable suffering. Hidden from view, this crime represents one of the biggest human rights violations of our times but few people know about it.

**Figure 1. The Global Slavery Index 2016: Region Analysis**

Source: [Walk Free Foundation](#)





## SLAVERY BY COUNTRY

Modern slavery is a hidden crime that affects every country in the world. Whilst it happens more frequently in poor, unregulated countries, nations with a high GDP and robust rule of law are by no means immune to this plague. For example, many cases of exploitation and limitation of freedom have been reported in the US seafood industry and Southern Italy's tomato picking activities, and investigations have concluded that the number of slavery victims is rising in the UK, even though it is considered a leading country in terms of anti-slavery regulations.

The number of modern slaves found from country to country varies greatly, with some countries having high concentrations, while others have few. For example, 58 percent of those living in slavery can be found in five countries: India, China, Pakistan, Bangladesh and Uzbekistan. Likewise, seven out of the ten countries with the highest number of victims are in Asia, resulting in over 30 million slaves or 66 percent (India, China, North Korea, Bangladesh, Indonesia, and Pakistan)<sup>4</sup>. Why are there so many victims across Asia? With 60 percent of the world's population, many countries in Asia have huge populations. Likewise, throughout Asia, there continues to be remnants of exploitative feudal systems in place that have never been dismantled – even in this modern age. In some nations, the proportion of people in slavery is extremely high. For example, in North Korea and Uzbekistan, 4 out of every 100 people live as slaves.

# 48,5 MILLION PEOPLE TRAPPED IN EXPLOITATIVE WORKING AND LIVING CONDITIONS

### Highest rates

*Percent of population*

North Korea . . . . . 4.37

Uzbekistan . . . . . 3.97

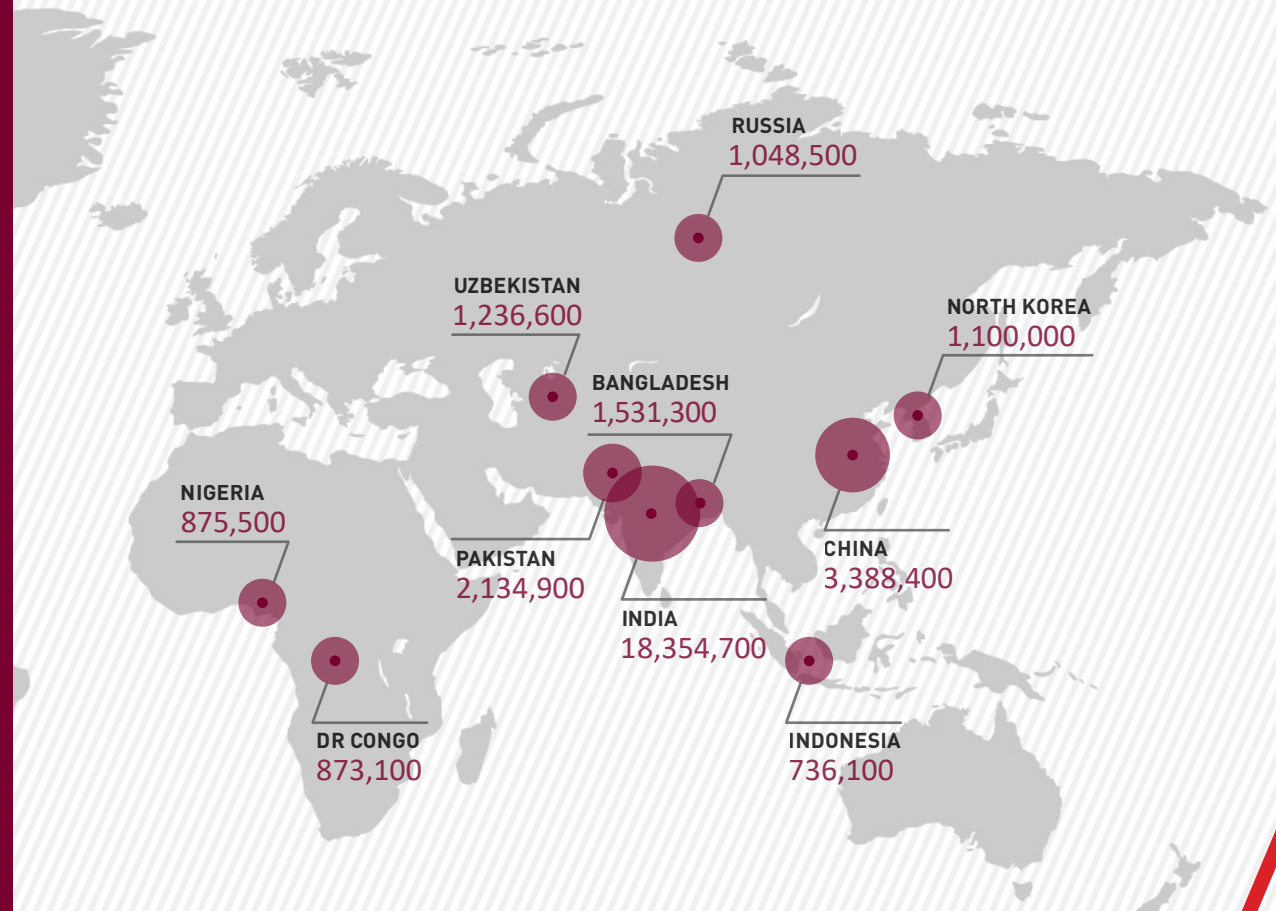
Cambodia . . . . . 1.65

India . . . . . 1.40

Qatar . . . . . 1.36

**Figure 2. The Global Slavery Index: Country Analysis**

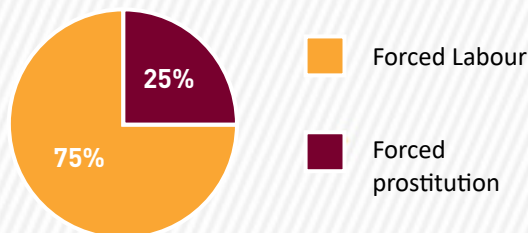
Source: [Walk Free Foundation](#)



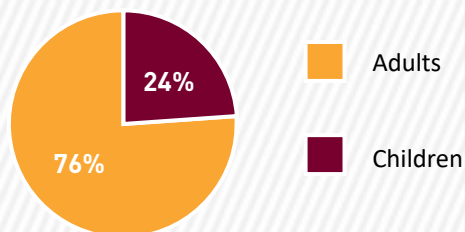
## RATE OF SLAVERY

Each year, 9.2 million new people enter slavery. This means that up to 25,500 new victims per day, nearly a 1,050 per hour, or one new slave every four seconds. One minute it might be a fifteen-year-old girl forced into prostitution, a young boy forced onto a fishing boat to work 18 hours a day for years without coming to port, or a sweat shop worker who toils 17 hours a day without a day off or any pay.

**Figure 3. Forced Labour vs Forced Prostitution cases**



**Figure 4. Age Distribution of Slavery Victims**



## BREAKDOWN BY AGE AND SECTOR

While most people think that modern slavery focuses primarily on women and girls being forced into prostitution, this represents only about a quarter of the total cases. The remaining 75 percent fall under the heading of forced labour<sup>5</sup>. **Out of this figure, about 60 percent of the victims are associated with manufacturing supply chains, which begin with a grower or producer and end as a finished product purchased by consumers in the retail market.** Thus, as consumers, we all support modern slavery because the products we buy are often tainted by this exploitation. The age distribution is approximately 24 percent children under 18 years of age and 76 percent adults.<sup>6</sup>

One of the key reasons for the high figures is that global supply chains rely on outsourcing their production stage to countries that offer low-skilled labor. This labour is usually man-intensive and provided by migrant workers. The harsh living conditions in the poorest areas of the region push people to migrate to seek better job opportunities in richer neighboring countries. These migrant workers are often tricked by exploiters who take advantage of their vulnerability. They end up in bonded or forced labour situations in industries such as food production, garments, and technology. A broader analysis of this process is given in the following section.

**9.2 MILLION NEW SLAVES PER YEAR  
25,500 NEW SLAVES PER DAY  
1,050 NEW SLAVES PER HOUR  
A NEW SLAVE EVERY 4 SECONDS**



# WHAT ELEMENTS COMPRISE SLAVERY TODAY?

Numerous factors and characteristics make up modern slavery. Unlike years ago, when men, women, and children were rounded up in Africa and forced onto boats with chains and shackles, today's slavery has a completely different dynamic. Below is a summary of some of the relevant factors.

## FRAUD AND DECEPTION

The most common approach traffickers use to recruit and secure victims is fraud and deception. About 90 percent of the cases fall into this category. Traffickers gain a person's trust and lie about a possible employment or life opportunity. They might offer a young, vulnerable person who faces hardship and poverty the one thing that seems completely out of reach: a better life, an easier life, or a life that will not only benefit them but their entire family. They offer a dream, with little or nothing asked for in return.

Whether such promises relate to a good-paying job or a good marriage, the messages are nearly always the same: "If you do what I say, if you trust me, then your life will be infinitely better." Not sometime in the distant future, but "Today! Right now!" For those who seldom have access to any options at all, such offers are

too tempting to pass up. They don't realize these fraudulent opportunities come with a terrible price. Thus, one of the biggest challenges the anti-slavery sector faces is how easily people accept such promises. Most trafficked persons are simply naïve. They want so much to believe the promised opportunity is real that they put common sense and logic aside.

## DEBT/CREDIT BONDAGE

In this situation, traffickers enslave and hold a victim in place through one of two key mechanisms involving money: debt bondage or credit bondage. Debt bondage is a situation where advances in cash are paid from the trafficker to the victim, her family, or to others, which the victim must "work off." Whether through force, physical or mental abuse, or some other form of coercion, the victim is maintained at the exploitation site until the debt is satisfactorily paid. Many times, the lender uses false accounting methods or charges excessive interest, sometimes more than 500 percent.<sup>7</sup> The bonded laborer, who may not speak the language or may be uneducated, does not know when the lender will consider the debt paid, so the length of service is undefined and

arbitrary. Such debts provide the exploiter with justification for maintaining his or her victim in bondage. Credit bondage is a situation where, over time, the trafficker does not pay the victim their wage. The victim remains at the exploitation site in the hope of recouping their earnings and minimizing their losses. This process of waiting can take months or years. Sadly, many of these employers have no intention of ever paying the employee.

Getting a person into slavery through debt is often very easy. The scenario often looks something like this: Take a family that earns no more than US\$2 per day. They live from hand to mouth, using this limited money to cover their food and housing. One day, a family member becomes very ill. To save his life, the family needs US\$20 to buy medicine. Since they have no money to offer, they borrow this amount from a human trafficker. But since they will never earn more than US\$2 per day, they will never be able to pay back both the loan and the interest. To recover his investment, the trafficker will insist that a family member work for a duration of time to pay this debt. With excessive interest, this could take a year or more. This is a common form of modern slavery.

## DIRECT SELLING OF A PERSON

In some cases, a trafficker delivers a person to an exploitation site and then receives a cash payment. In essence, victims are sold to the business. For victims to regain their freedom, they are expected to work off the amount of money the business owner paid for their purchase, along with additional fees added to the original amount. This impossible debt holds the person in place. Compared to many years ago, slave prices have gone down in modern times. The average price for a slave in the mid-1800s was approximately US\$40,000 (adjusted to current values). Today, depending upon the location, a slave can be acquired for as little as US\$100.<sup>8</sup>

## KIDNAPPING

While some slavery victims are abducted, this tactic is used less than most other approaches. It is much easier to transport a person who is willing, rather than to use force with those who are not. When people can be deceived into believing that they will benefit from going somewhere, transporting them is a much easier task. For example, compliant victims will help traffickers evade border police and customs officials. The victims will be unlikely to attempt an escape until it is too late. In contrast, kidnapping victims tend to fight, kick, and scream. This presents obvious risks for traffickers.

## THREATS AND VIOLENCE

Traffickers violate many laws and human rights during the process of recruiting, transporting, harboring, selling, and maintaining the person. This can include torture, rape, beatings, threats of violence, threats of reprisals against family members, deprivation of food, and physical confinement. Each of these elements contributes to placing and maintaining the person in a slave-like situation.



## AVERAGE PRICE OF A SLAVE

In 1809 (adjusted to today's value):



In 2016:



# TERMS, DEFINITIONS AND EMERGING TRENDS

While the manufacturing world has spent many years addressing the issue of **forced labour** within their supply chains, for many banks this is a new concept. Below is a description of the most relevant terms, definitions, and emerging trends used by the private sector to describe this issue.

The definition used by most companies includes “All work or services extracted from any person under the menace of any penalty and for which the person has not offered themselves voluntarily.”<sup>9</sup> This definition places the emphasis on the negative consequences of leaving a job and the fact that the person is forced to accept work against his or her will.

Within the past five years, the topic of **human trafficking** has been combined with this traditional concept of forced labour to expand the range of different potential scenarios. Human trafficking, as a concept, includes forced labour as an outcome, but goes further by placing much of the emphasis on how a person gets into the forced labour situation. For example, the trafficking definition focuses on “the act of recruitment, transportation, transfer, harboring, or receipt, by means of threat, use of force or coercion, abduction, fraud, deception, abuse of power, and abuse of vulnerability.”<sup>10</sup> Thus, what happens before the exploitation begins is a major emphasis.

Since 1926, the definition of **traditional slavery** has remained relatively unchanged. Slavery is defined as “the status or condition of a person over whom any or all of the powers attaching to the right of ownership are exercised.”<sup>11</sup> In this case, the emphasis is placed on the ownership and loss of control of person’s life.

In addition to these distinctions, there are more refined definitions that focus on variations of forced labor. For example, **contract slavery refers to** the use of **false or deceptive contracts** that guarantees employment. In this case, a person signs a contract in a language they cannot read or that is not explained to them. Despite the illegality of this process, the worker is threatened if they try to leave or break this fraudulent contract. With **bonded labour**, a person becomes the property of another person, to work for them as collateral against a loan that was made. These debts are often enforced by the threat or use of physical violence against the victim and/or his family network.

Beginning in 2014, “**modern slavery**” has emerged as an umbrella term to include nearly all the definitions listed above within one combined heading. The adjective modern is offered to identify slavery as a

crime whose implications have not changed, but some of its features have adapted to modern times. Also, this terminology choice follows the steps of one of the leading pieces of legislation in the field: the UK Modern Slavery Act.<sup>12</sup> The term “modern slavery” may sound harsh to those new to this topic, but many now feel that this is the right combination of words to describe the obnoxious situations victims are forced to endure. Modern slavery is emerging as the new paradigm of our time.

In the section below, more details will be provided to clarify and expand the meaning of the various terms commonly and broadly used in the anti-slavery field. The necessity for us all to understand each definition is as follows:

- Clarifying which situations a term refers to helps us better understand a phenomenon that is quite complex, and is the first, necessary step toward action;
- Narrowing down a problem by defining it helps in targeting action; and
- Clear definitions are necessary for quantifying a problem to allow for change to be measured.

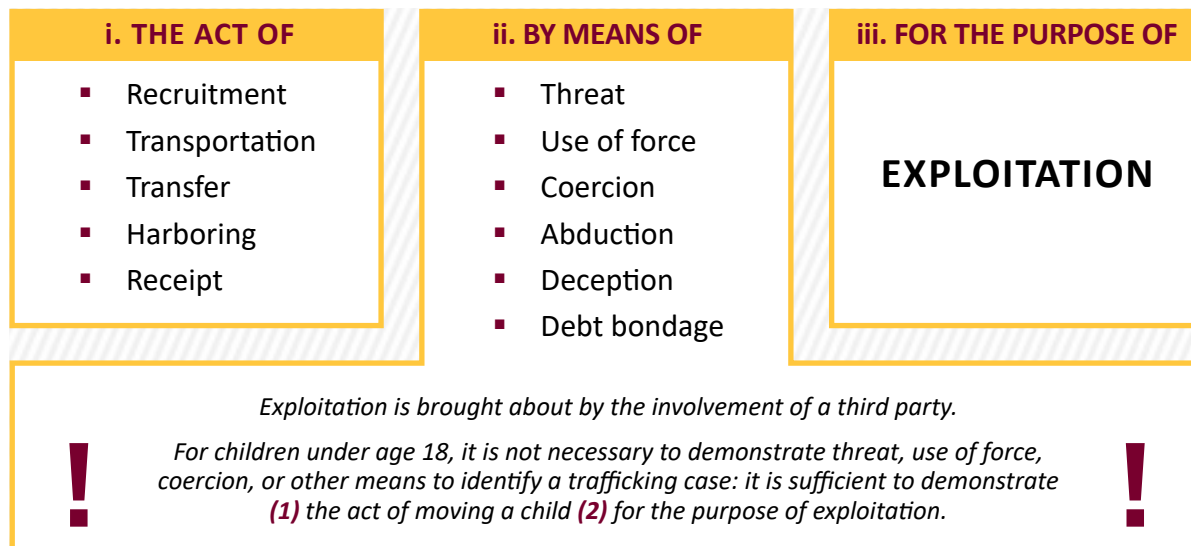
To better understand the differences between the various terms, here is a more detailed summary:

DEFINITION	DESCRIPTION
<b>TRADITIONAL SLAVERY</b>	The internationally accepted definition of slavery was outlined in the 1926 Slavery Convention which states that: “Slavery is the status or condition of a person over whom any or all of the powers attaching to the right of ownership are exercised.” <sup>13</sup> Note that this definition equates “slavery” with the “owning” of a person. According to the Bellagio-Harvard Guidelines on the Legal Parameters of Slavery, “The exercise of ‘the powers attaching to the right of ownership’ should be understood as constituting control over a person in such a way as to significantly deprive that person of his or her individual liberty, with the intent of exploitation through the use, management, profit, transfer or disposal of that person.” <sup>14</sup>
<b>CONTRACT SLAVERY</b>	The worker pays a high fee, often to a recruitment agency, to find work for them. A deceptive contract is offered that guarantees employment, perhaps in a factory or service setting. The victim signs a contract in a language they cannot read or as an illiterate person they are forced to sign a contract that is not explained to them. If the job is in another country, a prospective worker often pays a full range of expenses related to the acquisition of a passport and other travel documents, transportation, and training costs. The promise offered in this case is that he or she will earn enough money to pay these fees back over a relatively short time. What happens instead is that the person arrives at the new workplace only to face enslavement and conditions which are much less than expected. Travel and identification documents are taken away and the person is forced to pay exorbitant amounts for substandard housing and food. A constant threat of violence prevents the person from leaving or looking for support.
<b>BONDED LABOUR</b>	A person becomes the property of another person, to work for them as collateral against a loan that was made. These debts are often enforced by the threat or use of physical violence against the victim and/or his family network. In many cases, the lender uses false accounting methods or charges excessive interest over time. Thus, the bonded labourer does not know when the debt will (if ever) be paid off, making the length of service undefined. In some cases, this loan is passed down from one generation to another.
<b>CLASSICAL SLAVERY (CHATTEL)</b>	A person is born or sold into a life of permanent servitude. This form of slavery, which has been outlawed in much of the world, continues today in parts of Sub-Saharan Africa including Mauritania, Niger, and Sudan.
<b>HUMAN TRAFFICKING</b>	The international accepted definition of human trafficking is provided in the United Nations’ Palermo Protocol, which states: ‘Trafficking in persons shall mean the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat of use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal for organs.’ <sup>15</sup>

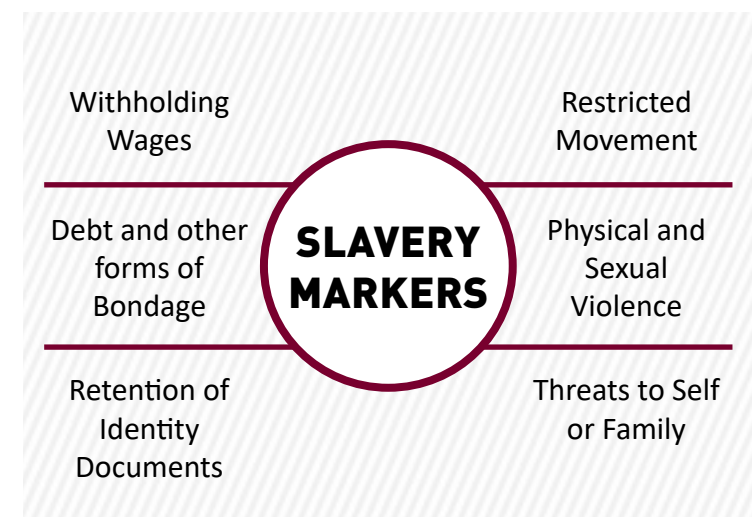
There are also other definitions belonging to the broader concept of “modern slavery”, such as forced prostitution, domestic servitude, forced marriage, etc. Some of these cases are related to the terms clarified above. For example, domestic servitude is an example of forced labour and forced prostitution can be a result of human trafficking.

Of all the definitions, the one that has received the most attention in recent years is “human trafficking.” Human trafficking, as a concept, has been and continues to be very politically charged. Over the past 20 years, it has become a topic that has received a great deal of attention in the media, among the general public, and across governments. While much of this attention can be attributed to forced prostitution, which is considered by most to be a major ethical and moral issue, over time, the relevance to forced labour situations has also continued to grow. One of the reasons why human trafficking, as a defining concept, is being replaced with “modern slavery” is that this definition places much of the emphasis on how a person moves from their community into the slave-like outcome, without focusing on the end-point itself. This emphasis on the “movement” of a person is considered less relevant. Many would argue that the “outcome” of this process is more important. Hence, modern slavery is considered the more appropriate term. To illustrate this point, note that two of the three components of the human trafficking definition deal with the process by which a person becomes trafficked – the act and the means by which this happens.

**Figure 5. The Defining Elements of Human Trafficking According to the Palermo Protocol**



**Figure 6: Modern Slavery Markers**



It is important to note that not all exploitation is considered human trafficking or slavery. While a worker may be in a situation where he is being cheated out of overtime pay, paid less than is owed him, or made to work excessive hours, this would not constitute a human trafficking/slavery case as long as he is free to leave this situation. To further clarify this point, there are two basic characteristics of modern slavery that must be in place:

1. Deception in payment agreements, such as withholding of wages (or complete lack of payment) and use of debt or other forms of bondage are in place; and
2. Restriction of movement by retention of documents, violence, and/or threats holds a person in place.

# GLOBAL IMPACT OF ANTI-MODERN SLAVERY EFFORTS

## VICTIMS RESCUED AND HELPED

After nearly 20 years of donor-funding available for major anti-slavery/trafficking efforts around the world, two indicators are now being tracked on an annual basis. The information in Figure 7 provides a summary of the number of slavery victims identified and supported in 2015.<sup>16</sup> The thin red line represents the number of people helped. With all of the NGOs, United Nations, and government efforts combined, the world only helped 0.2 percent of people in slavery.

## PROSECUTIONS AND CONVICTIONS

The information in Figure 8 provides a summary of the number of global prosecutions and convictions by year.<sup>17</sup> Note that relative to the number of human slaves throughout the world (estimated to be 45,800,000), the numbers of prosecutions and convictions are extremely low.

When looking at the figures for prosecution and victim assistance, one might question the efficacy of the current anti-slavery response. Why are the numbers so low relative to the number of slaves? Are the responders not doing their jobs? Are the interventions not focused enough? There are four major reasons cited for the low results.

- **Excessive Profits:** According to the International Labor Organization (ILO), the profits generated from this illicit trade are estimated to exceed US\$150 billion annually.<sup>18</sup> But despite the size of the problem, annual global donor contributions add up to only around US\$350 million<sup>19</sup>, which represents less than one percent of total profits generated by the criminals (0.23 percent). It is not surprising that the number of trafficked persons continues to increase. Realizing that we are not making a significant difference in this fight, it is clear something needs to change.
- **Limited Number of Responders:** It is estimated that there are approximately 15,000 people within NGO, UN, and government offices addressing this issue. The number of criminals is estimated to be over 500,000.<sup>20</sup> The number “greed-incentivized” criminals is over 30 times more than the number of people fighting the problem.
- **Hidden Nature of the Issue:** Because of the clandestine nature of modern slavery, it is not always easy to find the victims. Unless the responders are trained to locate them, they will not be found.
- **Supply Chain Transparency Law:** Up until recently, few corporations have looked below the first tier within their supply chains.

In the past, there was no incentive to do so. With new legislation in place that expects companies to have a clear, in depth understanding of their overall supply chain, many companies are doing what they can to be in compliance. This is not possible for most organisations at this time. Therefore, modern slavery might exist, but it isn't being detected.

Figure 7: Victims rescued annually

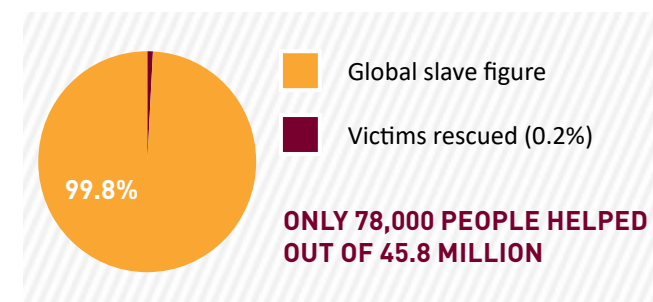
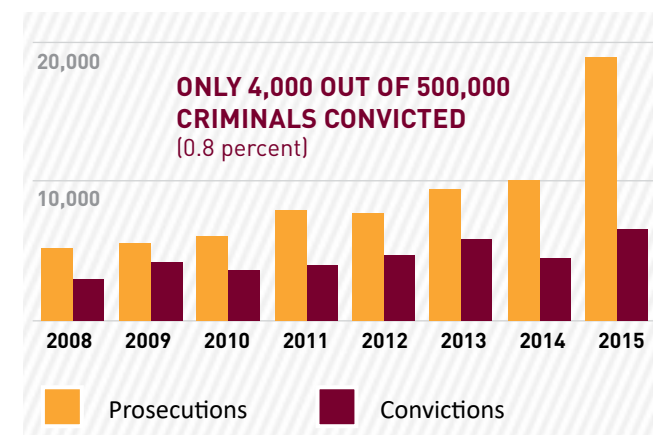


Figure 8. Prosecutions and Convictions





## BUSINESS RISK

Global norms on who is responsible for modern slavery violations are shifting. The notion that a company shares responsibility for the transgressions of its suppliers has been accepted for decades. But as expressed in the overarching 2011 Guiding Principles on Business and Human Rights<sup>21</sup>, momentum is now building behind the idea that all forms of business relationships generate human rights responsibility. Addressing human rights responsibility is still more voluntary than mandatory, but not for much longer: where norms lead, laws and regulations eventually follow. Banks should prepare for a future of obligatory human rights due diligence.

In the UK, the passing of the Modern Slavery Act prompted the inclusion of slavery and trafficking in the first 'national risk assessment' and 'action plan' for anti-money laundering and combating the financing of terrorism (AML/CFT).<sup>21</sup> Industry-specific regulations will be the next step.



MODULE TWO

**MODERN  
SLAVERY AND  
THE FINANCIAL  
SERVICES SECTOR**





# HOW DID MODERN SLAVERY BECOME AN ISSUE FOR THE PRIVATE SECTOR?

The topic of modern day slavery was considered a public-sector issue until 2012. Governments, NGOs, and the United Nations addressed the problem with limited involvement of the private sector. Over time, however, a major shift has taken place that has brought the private sector into the response. There are three significant factors that have contributed to this emerging trend.

First, with 75 percent of the slaves in forced labour conditions and 60 percent of them associated with manufacturing supply chains, it became evident that the private sector had a role to play. With manufacturing being based on supply chains, this was a logical conclusion. Second, over more than a decade, the international human trafficking community had not come close to meeting its full potential. According to the 2016 Trafficking in Persons Report, only 78,000 of the global slaves were rescued in 2015. This means that less than 0.2 percent of the victims were being identified and assisted each year. Understanding the limitations of the public sector, it was felt that the private sector could help open a new front in the fight. Finally, according to the UN, the profits generated from this illicit trade are estimated to exceed US\$150 billion annually. If any of this illegal money makes its way into a legitimate bank, it is considered money laundering. This made the issue relevant to banks who had to protect their business.

## TRENDS RELATED TO MODERN SLAVERY AND THE PRIVATE SECTOR

Based on the factors listed above, four trends have emerged since 2012. Below is a summary of each of these trends:

### 1. INCREASED MODERN SLAVERY LEGISLATION:

Legislation related to modern slavery has increased. The California Transparency in Supply Chains Act (2012)<sup>23</sup> and the UK Modern Slavery Act (2015)<sup>24</sup> were two of several important Acts put in place that require companies to report what they are doing to address the issue of modern slavery. The purpose of this legislation is to prevent modern slavery in organisations and their supply chains by increasing transparency. In the near future, legislation that offers penalties and fines may soon follow. On the next page is a summary of these two major legislative Acts.

## CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT

## UK MODERN SLAVERY ACT SECTION 54 'TRANSPARENCY IN SUPPLY CHAINS'

<b>INITIATED</b>	January 2012	October 2015
<b>WHO IS AFFECTED</b>	Retailers and manufacturers with annual worldwide gross receipts that exceed \$100 million who do business in the state of California.	Any commercial organisation in any sector, which supplies goods or services, and carries on a business or part of a business in the UK, and is above 36 million GBP annual turnover.
<b>ACTION</b>	Companies must disclose their efforts to eradicate slavery and human trafficking from direct supply chains.	Companies must produce a slavery and human trafficking statement for each financial year of the organisation signed by a Director or higher executive stating the steps the organization has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its own business.
<b>PURPOSE</b>	<ul style="list-style-type: none"><li>▪ To push companies to enhanced transparency.</li><li>▪ To educate consumers on how to purchase goods produced by companies that responsibly manage their supply chains.</li></ul>	<ul style="list-style-type: none"><li>▪ To develop an appropriate and effective response to modern slavery by encouraging businesses to be transparent about what they are doing, thus increasing competition to drive up standards.</li><li>▪ To enhance public scrutiny of companies' policies on modern slavery.</li></ul>
<b>PENALTY</b>	The California Attorney General has exclusive authority to enforce the Act by filing a civil suit to force a company to fix its disclosures.	If a business fails to comply with the provision's requirements the secretary of state may seek an injunction through the High Court requiring the organisation to comply. If the organisation fails to comply with the injunction, they will be in contempt of a court order, which is punishable by an unlimited fine.
<b>KEY POINTS</b>	<ul style="list-style-type: none"><li>▪ Businesses share some responsibility for the whole of their supply chains, not just the parts that they can readily see.</li><li>▪ The increased interest in supply chains is not restricted to the labour sector.</li></ul>	The organisation does not have to guarantee that the entire supply chain is slavery free. Instead, an organisation must set out the steps it has taken in relation to any part of the supply chain.
<b>CONSEQUENCES</b>	A recent series of class actions filed in California federal courts accused major retailers of violations of the Act because - contrary to the disclosure statements on their websites – actors in their supply chains use slave labour or otherwise violate company standards for its suppliers.	<ul style="list-style-type: none"><li>▪ Through labour-related initiatives the UK government has given law enforcement more power when dealing with employers who subjugate their workers to slavery .</li><li>▪ Statements issued by companies are being publicly scrutinised.</li></ul>

## 2. CLASS ACTION LAWSUITS

There are a number of class-action lawsuits being filed against major companies. These businesses are being accused of supporting slavery conditions in the fisheries and cocoa industries. The objectives of the lawsuits are to force these companies to use their leverage to eliminate the problem.

### LAW SUITS: THAI SEAFOOD SUPPLIERS

Several class action law suits involving seafood were filed against food giants last year. To name a few:

Nestle SA was sued over claims that its Fancy Feast cat food contains fish from a Thai supplier that used slave labour. The suit alleges that Nestle is sourcing canned pet food from Thai Union subsidiaries – which in turn received fish likely caught using forced labor. According to the complaint, Nestle’s Thai supplier gets its fish from trawlers whose crews are often men and boys who have been trafficked from Myanmar and Cambodia. They are sold as slaves by brokers and smugglers to fishing captains in Thai ports and frequently resold out at sea. Similarly, Mars, Inc. was sued over claims that it failed to disclose that the overseas production of Iams cat food involved slave labour practices, and that it sourced fish for its pet food from the same supplier as Nestle’s.

The US retail chain Costco and its Thai seafood supplier were sued over claims alleging that Costco knowingly sold prawns that were fed with fishmeal sourced from slave boats. The investigation established that large numbers of men, who were bought and sold and held against their will on fishing boats off Thailand, were integral to the production of farmed prawns (commonly called shrimp in the US) sold in leading supermarkets around the world, including the top four global retailers: Walmart, Carrefour, Costco and Tesco.

The consumers who filed the cases sought to represent all buyers who wouldn’t have bought the product had they known that it was part of a supply chain tainted with slave labor. The cases were brought to court in California, where slavery is a crime by law and enhanced disclosure has been pushed forward by the 2012 California Act on Transparency in Supply Chains.





### 3. INCREASED MEDIA COVERAGE OF THE TOPIC:

Media interest related to this topic has significantly increased over the past three years, with major TV, print stories, and articles nearly doubling annually. In fact, environmental coverage appears to be going down while the slavery coverage is increasing.

### 4. INCREASED “NAMING AND SHAMING”

With supply chain labour conditions emerging as an important issue facing global companies, the number of mass social awareness campaigns and investigative journalist reports have significantly increased. The targets of these initiatives include a range of different manufacturers and growers, including apparel, footwear, electronics, fisheries, food packaging, and agriculture. The purpose of these efforts is to “name and shame” a company into taking action to correct a perceived injustice or inadequacy against workers. The potential outcome of this process may include: bad press; public protests (using online petition services, Facebook, Twitter, etc.); loss of consumer trust; reduction in sales; loss of trade partners; boycotts; potential lawsuits and class action suits; and drop in share value.

While “naming and shaming” can be a powerful tool to sway consumer opinion, the information used is not always based on accurate or reliable data. For instance, there are examples of companies who were attacked with no foundation to support the reported accusations. Likewise, some campaigns only target the largest companies to gain greater publicity for their cause. In other words, the selection process is not random or necessarily based on where the real problem is located.

The rationale for “naming and shaming” is simple. The use of exploitative and forced labour is only profitable to the extent that the products produced by this labour can be sold. Remove the market for goods produced by forced labour and there is no incentive for its use. In recognition of this, the US and UK governments have taken a lead in targeting exploitative practices in the supply chains of major companies through new legislation. While there is very little argument as to the value of targeting supply chains, there is room for discussion as to how this is best done. “Naming and shaming” is one approach – there are many others.

## MODERN SLAVERY AND MANUFACTURING

All of the goods we use, consume, or wear every day have been through a production, packaging, and distribution process that begins with a grower or producer and ends as a finished product purchased by consumers in the retail market. This process is known as a “supply chain.”

As companies attempt to cut prices to better compete for ever-shrinking markets, they are under pressure to keep their production costs low. Because labour costs are often a significant portion of the product cost, reducing these costs may be achieved by sub-contracting with manufacturing companies and/or independent operations in locations where labour prices are low. It’s at this point where slavery can enter the supply chain: to reap the highest profits, unscrupulous employers take advantage of these sub-contractors and exploit workers in locations where labour standards are low or non-existent.

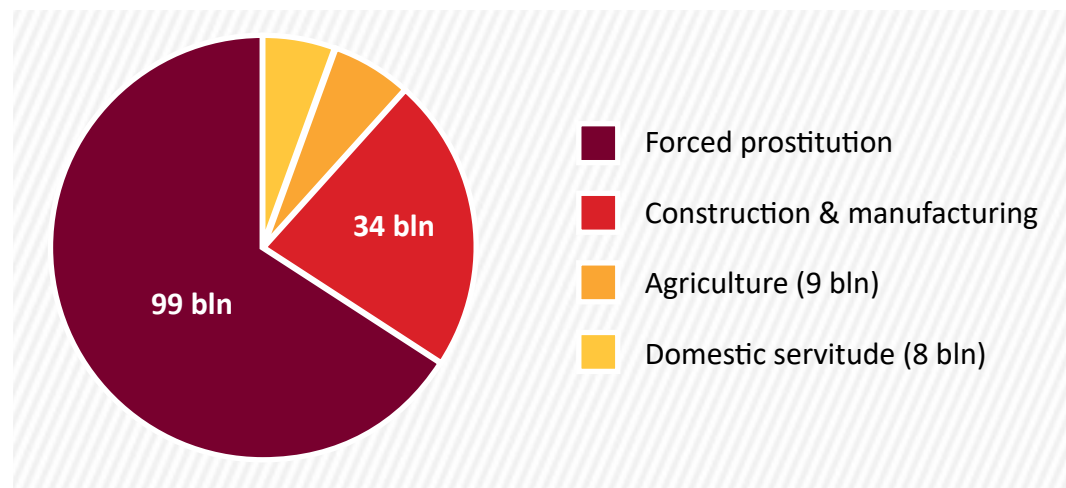
As a result of these practices, it is possible for slavery to infiltrate the supply chains of many of our everyday products. But because supply chains are so complicated and involve many levels and stages, it can be very difficult to trace the exact points in the supply chain where slavery exists. Companies complain that their factories are regularly inspected, but inspectors rarely check work sub-contracted to out-workers in smaller businesses. To put the issue into perspective, cases of slave labour have been extensively documented in the production of cotton, sugar, cocoa, beef, timber, tomatoes, shrimp, fish products, steel, gold, diamonds, shoes, clothing, fireworks, carpets, bricks and electronics, among others.

## MODERN SLAVERY AND THE FINANCIAL SERVICES SECTOR

The extent of the exposure to risks associated with modern slavery varies across businesses. Certain businesses are at a higher risk of being used, with or without their knowledge, for modern slavery purposes. For example, businesses can be at risk based on the following factors: the nature of the business; the depth and extent of supply chains within locations that already have a history of forced labor; and the degree of involvement with organised crime.

According to the ILO, slavery earns profits of roughly US\$150 billion a year<sup>25</sup> for traffickers. The following is a breakdown of profits, by sector:

**Figure 9. Profits of Modern Slavery (US\$)**



Because of the magnitude of this amount of money being acquired from this criminal activity, the financial services industry must consider this a potential risk to their businesses.

## VULNERABLE SECTORS

Finance Against Trafficking's "Suspicious Financial Activity and Human Trafficking" manual<sup>26</sup> identified a number of sectors particularly at risk when it comes to slavery and trafficking. The following two sections have been taken from this report and address these sectors.

Certain types of business are vulnerable and at risk of having modern slavery within their supply chain. This also exposes them to money laundering risks. For example, an otherwise legitimate restaurant business that uses or profits from slave labour, is committing a crime. The principals of the business and its accountants can potentially be charged with money laundering for intermingling legitimate proceeds with the proceeds from crime. Businesses with a high risk of exposure can be divided into several categories, including:

### 1. Logistics businesses, which can be exploited by human traffickers as intermediaries for trafficking purposes:

- Travel agencies;
- Coach stations; and
- Transportation and haulage.

### 2. Labour intensive businesses, users of cheap, unqualified, and/or seasonal labour:

- Labour contractors such as for caretaker services;
- Farms and agriculture;
- Fishing and shell fish at any point of the process of gathering;
- Food industries, food processing, and packaging;
- Textile manufacturers;
- Mining;
- Building and construction;
- "Invisible sectors" such as domestic work.

### 3. Hospitality, entertainment, services and retail trade:

- Hotels, restaurants and cafes;
- Beauty and massage salons;
- Consumer services;
- Cleaning and other domestic work, nursing and care work; and
- Retail and distribution.

Whilst these businesses can harbour and deploy modern slavery, unwittingly or otherwise, some can also be used as money laundering fronts for organised crime activities.

Some of the above-mentioned businesses are characterized by intensive labour use and have a high staff turnover. To fill gaps, businesses may resort to using temporary personnel without properly checking identity documents with the labour intermediary. In such cases the business owner or manager would typically pay an intermediary rather than paying the personnel directly. Businesses such as construction companies, hotels, and supermarkets have lengthy supply and sub-contracting chains. These can involve recruitment agents whose activities may be poorly monitored. Thus, the risk of modern slavery being used within the chain increases.



## LEVELS OF VULNERABILITY

According to Finance Against Trafficking's Suspicious Financial Activity and Human Trafficking Report, the financial services industry is exposed to the risk of being used as a conduit for crime proceeds at two levels: 1) by those involved in modern slavery for laundering the proceeds of this crime; and 2) by providing services to businesses that use modern slavery within their supply chains (possibly unwittingly).

### Direct use by those involved in trafficking

When modern slavery takes place across borders, traffickers use financial systems to send criminal proceeds back to their countries of origin. Human trafficking is primarily a cash-based illegal activity. While much of their profit is distributed within their organised crime group in small amounts for daily expenses such as food and entertainment, which does not require the use of money laundering techniques, some will use the financial system to send money to their country of origin.

Certain types of businesses within the financial services industry are at greater risk of being directly used by traffickers as a conduit for their crime proceeds. Particularly, financial service businesses

dealing with cash are exposed to higher levels of risk from human trafficking, including: money service and remittance businesses; retail/branch banking; credit card companies; cash couriers; dealers in high value goods; and casinos.

Money Service Businesses and institutions offering retail banking often must deal with large numbers of small money transfers, the majority of which are legitimate. To detect this crime, they need to apply appropriate risk profiling along with the most readily used red flag indicators, balanced against available resources and system constraints. This topic will be discussed in more detail below.

### Institutions that provide services to businesses that use trafficked labour or have trafficked labour within their supply chains:

Financial services institutions need to be particularly vigilant for signs of modern slavery when dealing with any of the previously listed business sectors. For instance, an investment bank that considers providing financing to an agricultural company would need to ensure that when it carries out due diligence processes on the target company, it includes investigating the company's employment practices and whether it is known to have any issues related

to this topic. While this kind of screening is routine for detecting other forms of money laundering, forced labour and modern slavery is a completely new category. With this in mind, new processes and procedures are being developed within the financial services industry to ask the right questions to detect modern slavery cases among potential clients.

## EMERGING RESPONSE USED BY THE FINANCIAL SERVICES SECTOR

The financial services sector uses seven approaches to protect their businesses from the threat of money laundering present within modern slavery, including:

1. Using Typologies to Understand the Crime;
2. Using Forensic Accounting to Identify the Crimes;
3. Working with NGOs to Collect Data;
4. Forging Partnerships with Law Enforcement;
5. Creating and Using Big Data Filters;
6. Using Criminal Databases to Screen Clients; and
7. Identifying and Using "Red Flags".

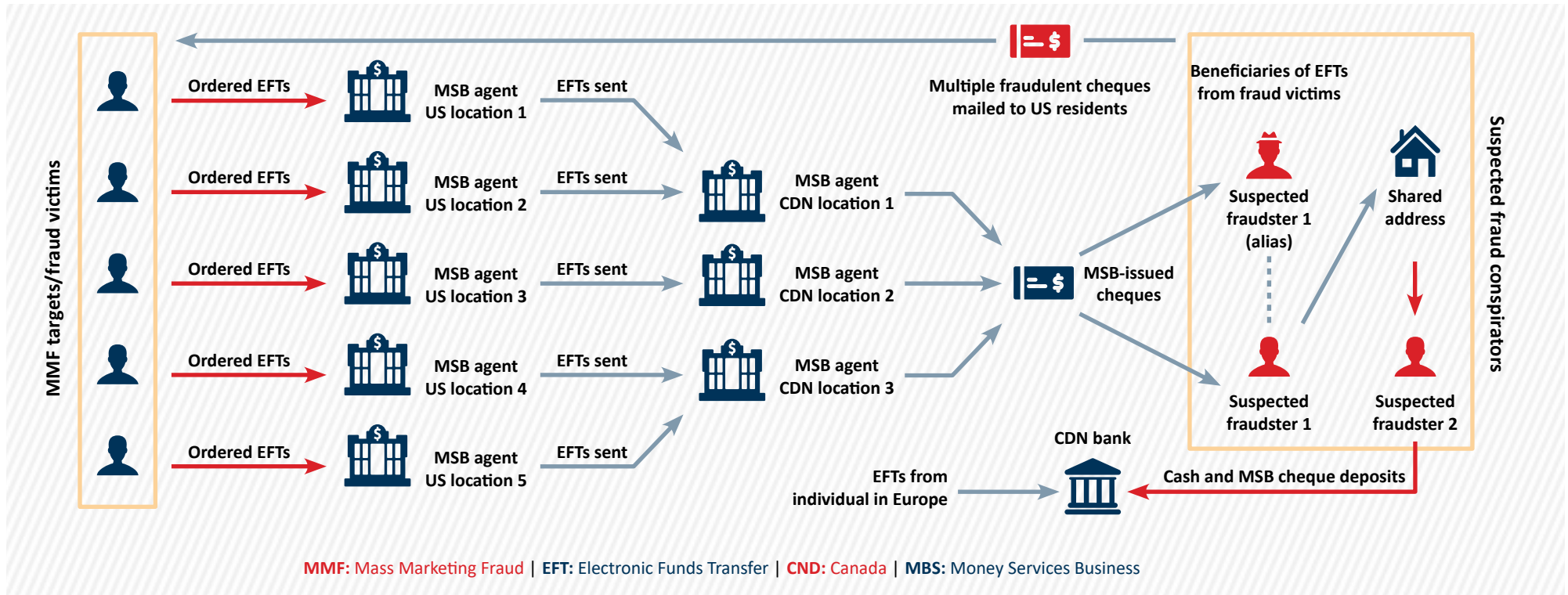
On the following pages is a summary of each approach in more detail.

## 1. Using Typologies to Understand the Crime

The purpose of using typologies is that it allows criminal behavior to be sorted according to distinguishing traits or forms of behaviour that are presumed to characterize them as a common social process. This approach helps identify trends and patterns that can highlight potential criminal behaviour – in this case, money laundering related to modern slavery. As part of this process, investigators seek to take existing crimes and break them down into component parts to identify “red flags” that can be used as benchmarks or indicators. Although different types of criminal activity may share some causal factors, the weighting of these and other influences differs from one offender type to another. Classification systems (taxonomies) identify the set of categories into which instances of a given phenomenon can be placed. Thus, typologies identify groupings assumed to exist in the real world. This allows them to be used as accurate predictors.

**Figure 10. Money Laundering Typology**  
**Example: Suspected Laundering of Mass**  
**Marketing Fraud Proceeds**

This diagram<sup>27</sup> illustrates the complexity of relationships between and among individuals and institutions. As more typologies are identified for modern slavery situations, similar diagrams can be developed to train compliance officers on what to look for.



Many banks are seeking to use their compliance teams to study, unpack, and then create typologies to predict criminal behaviour associated with money laundering consistent with modern slavery. Since money laundering for a variety of different criminal activities might look the same, this process is not easy.

One example of a bank using this process include Standard Chartered Bank (SCB). For several years, SCB has been analyzing their business relationships in India to ensure that there is no risk of forced labour among their major customers. With India being the country with the highest number of modern slavery cases, this process is important to ensure that the bank is not vulnerable to charges of money laundering.

## 2. Using Forensic Accounting to Identify the Crimes

Forensic accounting is the art and science of investigating people and money. The practice incorporates traditional accounting procedures with investigative techniques to identify the potential for criminal behaviour in each real-world situation. Forensic accountants critically examine an individual's or a company's complete financial operations, pouring through financial documents and other data from which they root out irregular spending patterns, and/or suspicious transactions. Simply put, they follow the money to see if any illegal activities might exist. Investigating and analyzing documents and circumstantial evidence enables them to form opinions to support or refute claims. These days, more financial services organisations have departments that use forensic accounting techniques. Below are examples of forensic account cases carried out by a financial intelligence unit. The use of forensic accounting to identify modern slavery will continue to grow in the coming years as a major tool to identify typologies, patterns and trends.

### CASE STUDY

JP Morgan's Financial Intelligence Unit first approached human trafficking through a data-driven lens. With public domain information and law enforcement partnerships, they realized that they could design financial models that would produce correlations in the data that were red flags for trafficking.

The team partnered with the United States Department of Homeland Security to create typologies to identify financial transactions and 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 the 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, they found \$100 manicures between 23:00 and 04:00 in Manhattan. "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.

The distinct nature of the patterns is important to note. Drug trafficking and organised crime can raise suspicion because large amounts of money flow through a single account. But often, trafficking does not generate money in quantities large enough to send a warning to FinCEN, financial crime enforcement unit of the US Treasury.



### 3. Working with NGOs to Collect Data

Banks must approach modern slavery through a data-driven lens. In the words of Manhattan District Attorney Cyrus Vance: “All sorts of electronic and digital fingerprints are left when a crime is committed or a business enterprise is being run. Financial institutions are in a unique position to spot red flags in banking activity and report them to law enforcement.”<sup>28</sup>

These digital fingerprints are represented in data sets. Using public domain information, private intelligence databases, and law enforcement partnerships, it is possible for banks to analyse data, identifying those that have red flags and produce correlations to uncover criminal patterns. While extensive material on possible scenarios and indicators for terrorist and drug trafficking activities already exist, in the case of modern slavery, there is not yet a comprehensive resource. Frustration exists for bankers who must cross-check systems that are not integrated in order to find the right data, and there is still confusion with regards to which pieces of information to look for exactly. This is due largely to the fact that modern slavery is a relatively new topic for banks to cover.

It is also related to the fact that – in the case of modern slavery – data is more complicated to gather and link to suspicious activities. For example, while drug trafficking and organised crime can raise suspicion because large amounts of money flow through a single account, human trafficking cases do not generate money in similar quantities. Different indicators have to be found, and usually a few are needed to occur simultaneously in order to call a transaction suspicious.

To source the right pieces of information, specific modern slavery-related “keywords” must be used. For employees to apply these terms, it is essential that any bank employees (e.g. risk managers, relationship managers, senior leadership, etc.) who are requested to look at the issue of modern slavery, receive appropriate training. The instruction offered should include: a description of each keyword, along with a summary of when and where this crime most often occurs, in which sectors, and under what conditions. Once properly informed, it is easier for a bank’s

staff to find the right data from the right sources, and correlate certain red flags that otherwise might be overlooked.

One NGO that is collaborating with the financial world is Liberty Asia.<sup>29</sup> Their “Information Strategies Program” works with NGO partners and information service providers to research and make available information on those identified as benefitting financially from modern slavery. This information is shared with the financial service sector to help them make better business decisions under Anti-Money Laundering (“AML”) and Anti-Bribery & Corruption (“ABC”) regulatory requirements. Liberty Asia facilitates the flow of this to due diligence specialist providers, notably Thomson Reuters WorldCheck.<sup>30</sup> The Reuters database is used by many of the world’s largest financial institutions in their client due diligence (“CDD”) and know your customer (“KYC”) procedures. For more information on data sources please refer to the Mekong Club’s one-pager on data below.

**Figure 11. Data sources for Financial Services Providers**

**WE’RE HELPING ONLY 0.08% OF SLAVERY VICTIMS.  
ONE OF THE REASONS IS A LACK OF DATA.**

#### WHY DO WE LACK GOOD DATA? ■■■

- Donors don’t value data collection and analysis
- Data sharing is limited
- Governments do not want to be criticised

#### DATA SOURCES FOR MODERN SLAVERY ■■■

- [Thomson Reuters World-Check](#)
- [The LexisNexis WorldCompliance Online Search Tool](#)
- [US Department of Labour’s List of Goods Produced by Child Labour or Forced Labour](#)
- [Responsible Sourcing Tool](#)
- [Global Slavery Index](#)
- [Liberty Asia](#)
- [Issara project](#)
- [Chab Dai](#)

#### 4. Forging Partnerships with Law Enforcement

One important way to understand the relationship between modern slavery and money laundering is to forge partnerships with law enforcement agencies to work together to analyze data and identify typologies. The advantage of this approach is that it allows for real cases to be used as part of this process. Below are two examples of this approach in action:

- **New York City Working Group**<sup>31</sup>: In 2013, the Manhattan District Attorney's Office set up a working group with numerous companies to swap monitoring rules and best practices, including: American Express, JP Morgan Chase, Citigroup, Bank of America, Wells Fargo, TD Bank, Barclays, and Western Union.
- **Microsoft Digital Crimes Unit (DCU)**<sup>32</sup>: This forum uses attorneys, investigators, forensic analysts, and business professionals in 30 countries to assist law enforcement.

Other organisations that demonstrate the collaboration between the private sector and law enforcement agencies are listed below. While most of them focus on issues other than modern slavery and money laundering, they do provide a model for how collaboration can be best addressed.

- **Financial Services Information Sharing and Analysis Center (FS-ISAC)**<sup>33</sup>: An organisation dedicated to gathering and disseminating

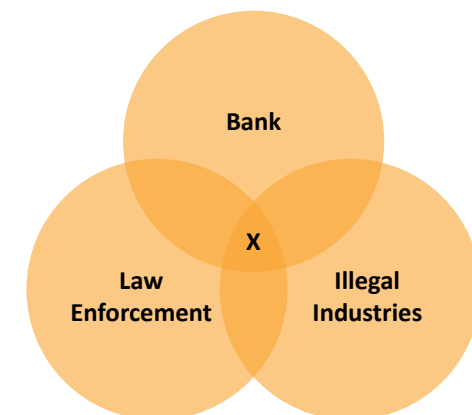
reliable and timely information from financial services providers, security firms, local, state, and federal law enforcement agencies, and other trusted resources related to physical and cyber-based threats against the financial services community.

- **National Cyber-Forensics & Training Alliance (NCFTA)**<sup>34</sup>: A nonprofit corporation with formal partnerships/agreements with more than 40 US private-sector organisations and more than 15 US and international law enforcement or regulatory agencies. The NCFTA enlists subject matter experts from stakeholder organisations to share real-time intelligence regarding cyber-based threats and supports the development of joint proactive strategies to better identify, mitigate, and ultimately neutralize threats.
- **Electronic Crimes Task Forces**<sup>35</sup>: Led by the United States Secret Service, these groups bring together federal, state, and local law enforcement with prosecutors, private industry, and academia for the purpose of preventing, detecting, investigating, and mitigating attacks on the nation's financial infrastructures. Groups are structured through local field offices and organised in most major metropolitan areas.
- **InfraGard**<sup>36</sup>: Led by the Federal Bureau of Investigation, this association with representatives from the private sector, academia, and state, local, and federal law enforcement agencies is dedicated to sharing

information and intelligence to prevent hostile acts against the United States. Like the Electronic Crimes Task Force, InfraGard is comprised of groups organised by FBI field offices in major metropolitan areas.

- **Anti-Phishing Working Group (APWG)**<sup>37</sup>: An organisation that seeks to unify the global response to cybercrime across industry, government, and law enforcement through data sharing, education, and standards development.

Each of these groups is different, but the common thread is information sharing between the private sector and law enforcement. This collaboration increases knowledge and awareness of threats and is often required to effectively capture and prosecute the masterminds behind attacks on financial institutions and their customers. The chart below demonstrates the relationship that should be considered when entering into this kind of partnership.





## 5. Creating and Using Big Data Filters

Big Data filtering in the financial services world refers to a range of strategies or solutions for refining massive data sets. As part of the filtering process, data sets are broken down into information that a specific user needs, without including other data that can be repetitive, irrelevant or even sensitive. Different types of data filters can be used to amend reports, query results, or other kinds of information results.

To identify possible modern slavery cases, banks are developing big data filters that track transaction patterns that might be considered relevant. This includes: recurrent business transactions outside official hours of operation, cross-border transfer of funds inconsistent with the stated business purpose of the account holder, multiple deposits that are just below the reporting threshold requirement, as well as a high number of individual accounts opened and closed simultaneously.

Below are three examples of big data filters that build rules and typologies for transaction monitoring systems that capture specific patterns and behavior indicative of human trafficking (red flags):

- **Verafin<sup>38</sup>:** Verafin analyzes the flow of funds of all transaction types in and out of big data accounts including ACH, wire, cash, ATM, check, and monetary instruments. As part of this process, they have set up the following filtering parameters: 1) a risk-rated money laundering alert that is generated based on customer activity that appears to go outside their normal behavior range, allowing banks to prioritize their review workload; 2) an alert summary that includes related evidence, statistics and transactions to optimize a bank's ability to focus on an investigation; and 3) a pre-populated Suspicious Activity Report (SAR) format that allows the system to quickly create and electronically submit this document with one click. Verafin also developed the FRAMLxchange to facilitate secure information sharing among 314(b) institutions, to help them work together to fight crime. This exchange represents the banking industry's largest 314(b) network, with more than 1000 collaborating institutions.
- **SAS, Fiserv and Oracle:** This group has come together to use rules and watch-list filters as part of their monitoring systems.
- **MetaBank and NICE Actimize<sup>39</sup>:** These two groups are working together to address prepaid cards. They also track websites where modern slavery can occur.

## 6. Using Criminal Databases to Screen Clients

There are two databases available that can be used to collect critical information to identify people who are involved in modern slavery around the world. This allows the financial world to screen existing and prospective customers. Below is a summary of both tools.



- **World-Check<sup>40</sup>:** As part of the Thomson Reuters Risk Management Solutions suite, the “World-Check” database of Politically Exposed Persons (PEPs) and heightened-risk individuals and organisations is used

around the world to help to identify and manage financial, regulatory and reputational risk. The creation of the database was in response to legislation aimed at reducing the incidence of financial crimes. World-Check’s intelligence was initially used by banks and financial institutions as a comprehensive solution for assessing, managing, and remediating risk. However, as legislation has become increasingly complex and its reach increasingly global, the demand for such intelligence has grown beyond the financial sector to include organisations from all sectors.



- **World Compliance<sup>41</sup>:** LexisNexis Risk Solutions manages “World Compliance” to further its commitment to helping organisations prevent financial crimes to avoid potentially millions of dollars in penalties and fines worldwide. World

Compliance is a leading provider of customer and vendor screening content used for Anti-Money Laundering (AML) and Governance Risk and Compliance (GRC) solutions. World Compliance’s Politically Exposed Persons (PEP) lists and Enhanced Due Diligence reports complement LexisNexis’ AML solution.

## 7. Identifying and Using “Red Flags” Indicators

While the US Department of Treasury’s Financial Crimes Enforcement Network (FinCEN)<sup>42</sup> maintains that certain red flags can signal possible modern slavery activity, multiple variables need to be examined to establish a strong indication of the crime. As already noted above, these include: recurrent business transactions outside official hours of operation, cross-border transfer of funds inconsistent with the stated business purpose of the account holder, as well as a high number of individual accounts opened and closed simultaneously.

The Financial Action Task Force (FATF) notes that some of the main trends detected for financial management and laundering the proceeds of modern slavery are similar to those of other organized crime activities. Over the past three years, several lists of possible money laundering activities related to modern slavery have emerged. For example, in January 2014, a collection of top US financial institutions issued a white paper entitled “White Paper to Combat Human Trafficking Using Financial Data.”<sup>43</sup> This document offered cutting-edge guidance to financial institutions and law enforcement agencies to help identify – through red flags – financial transactions linked to modern slavery. According to the authors, “This list is not intended to be an exclusive list of high risk indicators and no one factor is dispositive in assessing the risks for Sex and Labour Trafficking. It is important to note that each of the following indicators is unremarkable when viewed individually. It is only when one or more of the indicators are evaluated alongside other risk factors, or information about the transactions, that an investigator may reasonably conclude that they may present a higher risk for trafficking and should, therefore, be investigated further.”

**Red Flags within Banking Transactions:** Below are some of the most common suspicious triggers that should raise alarm, and encourage subsequent investigations or the reporting of such illegal activities to the relevant authorities.



## CATEGORY

## POTENTIAL RED FLAGS

### PAYROLL ACTIVITY IN BUSINESS ACCOUNTS

Non-payment of taxes, workman's compensation, and other fees to a tax authority or other governing body typically associated with legitimate full-time employment.

- Transfers of funds back to employer's account or the same third party after payment of wages (a possible indicator that a worker is paying off a debt to an employer or labour broker).
- Methods of payments to employees that may be indicative of Labour Trafficking. Examples include:
  - Rate of pay for each pay period is identical (no changes for overtime, vacation, sick leave, bonus payments, etc.) in jobs where that would not be expected.
  - Every employee's payment is identical.
  - Recurring (e.g., bi-monthly) payments for wages at unreasonably low amounts (such as \$1.19 for the entire pay period after deductions are taken out may be indicative of debt bondage).
  - Cheques from an employer's account all endorsed on the same day often at a single establishment.
  - Labour contracting or recruitment businesses without deductions for the payment of wages.

### BUSINESS EXPENDITURES

- Relatively high expenditures for items inconsistent with stated business purpose such as rental of multiple hotel or motel rooms or apartments (to provide housing for workers), large scale purchases of phone cards, and regular vehicle rentals when such rentals do not appear to have a logical connection to the underlying business activities of the customer.
- A high volume of credit card authorizations for accommodations or vehicles with no subsequent charge (suggesting an intention to avoid leaving an electronic record by paying in cash).
- Business accounts for companies not in the hospitality industry showing purchases of large amounts of food and other necessities may indicate that the business is acquiring these items to sell to employees in a "company store" arrangement that is designed to keep employees in debt to the employer. Such purchases may also be indicative of the business keeping the employees under one roof.
- Business customers whose transactions occur outside the time of known business operations. Examples include:
  - 2 a.m. credit card transactions at a nail salon.
  - Significant and frequent gasoline station credit card charges between 11 p.m. and 6 a.m. (may indicate the movement of carnival workers, farm-workers, or door-to-door sales crews (e.g. magazine sales).
- Fines paid to the Department of Labour or other workplace regulating entity.
- Businesses with an excessive number of accounts inconsistent with the stated business purpose of the customer.

## CATEGORY

## POTENTIAL RED FLAGS

### INDIVIDUAL ACCOUNTS APPEARING TO HAVE SAME EMPLOYER

- Non-familial custodial bank accounts where there is the same custodian on multiple accounts. This activity may be suggestive of an employer/labour broker controlling workers' accounts and preventing their access to their own funds.
- Repeatedly endorsing cheques to the same third party. This activity may be indicative of a financial "loop" or "round-trip" where employees appear to be receiving wages but the funds are ultimately rerouted back to the trafficker through an intermediary.
- Issuance of a final cheque to close out an account that is made payable to the employer who had been depositing funds into the account.
- Bank accounts opened for visa holders that receive little or no deposits at all and/or have the employer as a custodian of the account.
- High number of individual accounts for the same customer that are all opened or closed on the same date.

### PERSONAL EXPENDITURES AND DEPOSITS

- Individuals with an excessive number of personal accounts.
- Repeated low-value payments to online or print advertisers known to cater to the sex industry.
- Payments to multiple cell phone/utilities companies or multiple payments to the same company.
- High-volume of travel related transactions (e.g., airlines, motels, rental cars, bus or taxi charges in multiple cities or states), including the payment for third party travel often naming female or minor travelers, when such transactions are not logically connected to the customer's trade or business.
- Frequent cash deposits made via ATM rather than at the teller or at multiple ATMs on the same day, sometimes followed by ATM withdrawals in a different location.
- Individuals with nominal occupation information or discrepancies between account funding and the known customer profile.

**Red Flags found with Manufacturing:** In addition to the banking scenarios listed above, the table on the next page addresses the potential red flags inherent within a migrant recruitment situation. This second example demonstrates that the context for a particular set of indicators and red flags can happen beyond the reach or exposure of a given bank. For example, the first table focuses on the red flags that can be directly observed through daily banking transactions. In other words, the bankers, themselves, track the indicators as part of their regular work. On the other hand, the indicators in the next table would need to be tracked by

the companies that hire and use the labour. This information could be collected by audits or through anonymous worker hotlines. Most banks would not have direct contact with businesses at this level. Therefore, red flags fall into two categories: those that banks can track directly, and those that need to be tracked by others. If red flags indicate a criminal activity in the second example and the bank is working with this organisation, this could result in a potential money laundering outcome. With this in mind, banks must not only do their own internal "due diligence," but also ensure that the businesses they fund do the same.

CATEGORY	INDICATORS	PRIVATE SECTOR “RED FLAGS”
<b>DECEPTIVE RECRUITMENT</b>	<ul style="list-style-type: none"> <li>▪ Person deceived about conditions of work.</li> <li>▪ Person deceived about the nature of the job, location, employer or employment.</li> <li>▪ Person deceived about wages/earnings.</li> <li>▪ Person deceived about content or legality of the work contract.</li> <li>▪ Person deceived about the proposed benefits.</li> <li>▪ Person deceived about the recruitment conditions (recruitment fees and fraudulent debt).</li> <li>▪ Person deceived about legal documentation required.</li> <li>▪ Person deceived about their migration status.</li> <li>▪ Person deceived about housing and working conditions.</li> <li>▪ Person deceived about travel conditions (sometimes crossing borders illegally through smuggling).</li> </ul>	<p>As part of a case review or interview, the following factors are identified as “red flags:”</p> <p><b>Victim</b></p> <ul style="list-style-type: none"> <li>▪ A major inconsistency is found between an employee’s proposed agreement and the conditions and circumstances of his/her work.</li> <li>▪ There is a clear indication of deception related to many or most aspects of an employee’s conditions and circumstances of his/her work.</li> <li>▪ There are elements of the recruitment process that are illegal.</li> </ul> <p><b>Recruiter</b></p> <ul style="list-style-type: none"> <li>▪ The involved recruitment agency/agent/broker is found to repeatedly and systematically deceive prospective employees.</li> <li>▪ The involved recruitment agency/agent/broker is found to repeatedly and systematically use illegal practices to recruit workers.</li> </ul>
<b>COERCIVE RECRUITMENT</b>	<ul style="list-style-type: none"> <li>▪ Existence of abduction, forced marriage and/or selling of victims.</li> <li>▪ Existence of violence against victims.</li> <li>▪ Existence of debt bondage.</li> <li>▪ Withholding of money.</li> <li>▪ Existence of isolation, confinement or surveillance.</li> <li>▪ Existence of threats of violence against the victim or family.</li> <li>▪ Existence of confiscation of documents.</li> <li>▪ Existence of threat of denunciation to authorities.</li> <li>▪ Existence of threats to inform family, community or public.</li> <li>▪ Existence of violence against family (threats or effective).</li> </ul>	<p>As part of a case review or interview, the following factors are identified as “red flags:”</p> <p><b>Victim</b></p> <ul style="list-style-type: none"> <li>▪ There is a clear indication of force, threats of force (against self and family)/violence found between an employee and his/her recruiter.</li> <li>▪ There is a clear indication of debt bondage or withholding of money or documentation found between an employee and his/her recruiter.</li> </ul> <p><b>Recruiter</b></p> <ul style="list-style-type: none"> <li>▪ The involved recruitment agency/agent/broker is found to repeatedly and systematically use violence, threats, and intimidation to force a person to accept a work situation.</li> <li>▪ The involved recruitment agency/agent/broker is found to repeatedly and systematically withhold money, and personal documentation to force a person to accept a work situation.</li> </ul>

CATEGORY	INDICATORS	PRIVATE SECTOR “RED FLAGS”
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**RECRUITMENT THROUGH ABUSE OF A PERSON’S VULNERABILITY**

- Abuse of a difficult family situation (divorce, sexual/physical abuse, substance abuse, etc.).
- Abuse of economic issues and constraints (poverty and debt).
- Abuse of cultural/religious beliefs (ethnic minorities, minority religions, etc.).
- Abuse of a person’s illegal/undocumented status.
- Abuse of lack of education/influence (language).
- Abuse of lack of appropriate information.
- False information about the legal system and the attitude of the authorities.
- False information about the merits of successful migration.
- Psychological and emotional dependency on power brokers (agents/brokers).

The following factors are identified as “red flags:”

**Victim**

- A person’s adverse living conditions and circumstances are used to take advantage of him/her, including: family situation (divorce, sexual/physical abuse, substance abuse, etc.), poverty, and social exclusion.
- A person’s lack of understanding of the legal system and conditions of employment are used to take advantage of him/her.

**Recruiter**

- The involved recruitment agency/agent/broker is found to repeatedly and systematically use a person’s adverse living conditions and circumstances to deceive or force a person to accept a position.
- The involved recruitment agency/agent/broker is found to repeatedly and systematically deceive or force a person to accept a position based on a lack of legal understanding or an understanding of the conditions of the work.

**INDICATORS OF FORCED LABOR**

- Person is forced to work against his/her will.
- Highly oppressive working conditions.
- Withholding of wages – low or no salary.
- Wage manipulation (fees and fraudulent debt).
- Debt bondage.
- Violence against person.
- Threats of violence against the person or family members.
- Confiscation of documents.
- Excessive working days or hours.
- Unhealthy, hazardous and/or terrible working/living conditions.
- No respect of labour laws or signed contract terms and conditions.
- Isolation, confinement or surveillance.
- Forced into illicit/criminal activities.
- Forced to lie to authorities, family members, auditors, etc.
- Threat of denunciation to authorities.

The following factors are identified as “red flags:”

**Victim**

- A person’s work situation is not voluntary based on one or more of the following factors: violence, threats of violence, fraudulent/illegal debt or confiscation of documents.
- A person’s work situation offers no pay or extremely low pay.
- A person’s work situation includes an oppressive job that is unhealthy, hazardous and illegal.
- A person work situation results in isolation, confinement or surveillance.

**Recruiter**

- The involved employer is found to repeatedly and systematically use violence, threats of violence, fraudulent/illegal debt or confiscation of documents to hold an employee in place.
- The involved employer is found to repeatedly and systematically withhold pay or offer extremely low pay.
- The involved employer offers unhealthy, hazardous and/or illegal work.
- The involved employer has no respect for labour laws or signed contract terms or conditions.

# DUE DILIGENCE RELATED TO COMPLIANCE ENVIRONMENTS

Red Flags can also be identified based on a range of different environments within a given business. The five most significant compliance categories include: social environment; working environment; production environment; financial/organizational environment; and migrant worker recruitment environment. The section below details a

set of key auditing criteria, against each of these five categories. The list is not exhaustive but indicates the types of questions that should be considered within a range of banking situations. This list can be used by banking compliance personnel to determine if a given business is tracking these items in their regular monitoring work or within third party audits.

CATEGORY	QUESTIONS TO ADDRESS RED FLAGS: BY ENVIRONMENT
<b>SOCIAL ENVIRONMENT</b>	<ul style="list-style-type: none"><li>Are all workers officially registered, listed and counted with ID cards, inspected and verified?</li><li>Is all compensation paid in line with legal and industrial standards?</li><li>Are all legal and industrial limits on working hours, shifts, weekend work, rest periods, and break regulations strictly observed?</li><li>Are wages paid on time without unjustified deductions of any kind?</li><li>Are all deductions included in the contract and within legal or industrial regulations?</li><li>Is withholding of wages in any way not tolerated?</li><li>Where there is payment of wages made to an agency, are all entitlements paid in full and automatically included in the scope of the audit?</li><li>Are adequate housing and living standards (where provided) in a secure environment, no over-charging or any other method that leads to worker dependence and denial of choice?</li><li>Do workers have clear channels to file complaints and receive prompt and accurate responses by companies?</li><li>Are all social contributions and obligations fulfilled in compliance with laws?</li><li>Are there no restrictions on freedom of movement?</li></ul>
<b>WORKING ENVIRONMENT</b>	<ul style="list-style-type: none"><li>Are workers adequately supervised and properly trained to perform their tasks?</li><li>Where the job function poses additional health risks, within tolerable parameters, are workers thoroughly informed of said health risks and provided with a choice?</li><li>Does the company provide additional health checks for job functions with higher risks?</li><li>Does the company provide workers with adequate protective gear and working tools as per legal or industrial standards?</li><li>Does the company ensure a working environment that is free from psychological pressure to perform tasks that might put workers' health in danger?</li><li>Do workers have access to adequate training and development?</li><li>Do all factories have clearly defined written grievance mechanisms and complaint procedures in place?</li></ul>

## CATEGORY

## QUESTIONS TO ADDRESS RED FLAGS: BY ENVIRONMENT

### PRODUCTION ENVIRONMENT

- Does the company allow access to production master data such as capacity allocations, output figures, quality performance, etc.?
- Does the company provide accurate information in relation to capabilities and expertise?
- Does the company inform if an order is outsourced partially or in full? In this case, each outsourced partner automatically is included in the scope of the audit.
- Does the company guarantee regular safety audits, evacuation exercises, fire drills, health checks, and any other precaution to increase safety of workers within all legal and industrial requirements?

### FINANCIAL ENVIRONMENT

- Is the company legally registered with authorities, in possession of all required permits, and in full compliance of tax and duty related issues?
- Does the company confirm that they are financially sound and able to meet all obligations in order to fulfill requirements and orders?
- Does the company confirm that all invested capital in the operation is from proper sources and does not pose any risk to the continuance of the business and therefore of the safety to employment of workers?
- Does the company provide adequate resources to consistently manage the worker pool within all organisational requirements as per legal or industrial standards?
- Does the company provide worker related statistics and data if required, e.g. number of sick days, rotation data, labour disputes and dispute mediation?

### MIGRANT WORKER RECRUITMENT ENVIRONMENT

- Do all workers have written employment contracts in a language they understand?
- Can the company prove contracts have not been substituted at either source or destination?
- Are all contracts compliant with local labour laws?
- Are the tasks being undertaken by workers consistent with those specified in their contracts?
- Are all deductions from workers' pay (e.g. food, accommodations) clearly specified?
- Are recruitment and brokerage fees paid by workers within legal limits established by government of workers' origin? If there are no legal limits, the fees should not exceed one month's salary per year of contract, excluding contract extensions.
- Do the migrant workers retain copies of their identification documents?
- Do the migrant workers have access to safe ways to remit their savings to their homes?

## CATEGORY

## QUESTIONS TO ADDRESS RED FLAGS: BY ENVIRONMENT

### OTHER INDICATORS

- Customer does not want correspondence sent to residential address, uses a post office box, or has a disconnected or non-functioning home or business telephone number.
- Money is presented in unusual condition, for example, damp, odorous, or coated with substance.
- Customer has multiple accounts with different financial institutions for no apparent reason or repeatedly uses an address but frequently changes the names involved.
- The customer has frequent transactions in contrast to known business activity or employment status, and offers ambiguous or inconsistent explanations as to the source of funds.
- Customer makes statements about involvement in criminal activities, or is the subject of a criminal investigation, or in some cases customer is accompanied and watched.
- Customer exhibits nervous or uncooperative behavior, demands very quick service, or shows uncommon curiosity about internal systems, controls, and policies.
- Customer presents confusing details about the transaction or knows few details about its purpose, or appears to informally record large-volume transactions, using unconventional bookkeeping methods or “off-the-record” books.
- Customer over-justifies or explains the transaction, is secretive and reluctant to meet in person, and in some cases, appears to be acting on behalf of a third party.
- Customer appears to have recently established a series of new relationships with different financial entities.
- Customer spells his or her name differently from one transaction to another.
- Customer attempts to develop close rapport with the staff; or offers:
  - Money, gratuities, or unusual favors to staff for the provision of services.
  - That may appear unusual or suspicious.
- Transaction involves a suspected shell company (that is, a corporation that has no assets, operations, or other reasons to exist).

# RELATIONSHIP MANAGEMENT AMONG BANKING DEPARTMENTS

Addressing modern slavery as a financial institution does not involve one department or one team; a collective, coordinated effort is essential. There are many roles where slavery may touch day-to-day activities.

Below is a table outlining the teams, roles and red flags related to the topic of modern slavery and the range of banking departments. It is essential that all of these communicate and work together to address the problem.

TEAM	ROLE	EXPOSURE
<b>Area: PROCUREMENT AND SOURCING</b>		
Teams involved in the procurement and sourcing of goods and services. This may include technology, resource contracting, or goods such as office supplies. The team/role would be accountable for sourcing new suppliers and vetting these against internal vendor onboarding guidelines.	Vendor/Partner Manager	May act as point of contact for contracting relationship management in some instances.
	Technology Sourcing Manager	May act as point of contact for contracting relationship management in some instances.
	Vendor/Partner Relationship Manager	May act as point of contact for contracting relationship management in some instances.
<b>Area: FRONTLINE CUSTOMER-FACING ROLES</b> (e.g. Lending / Business Banking / Customer Complaints / Branch Staff)		
Teams involved in the customer-facing activities such as customer onboarding, provision of financial advice, dealing with customer complaints and remediation activities, on-going customer/client relationship management.	Relationship Manager	Team may have exposure to modern slavery through their clients/customers potentially being involved in these types of activities. Need to be aware of the red flags and how to report suspicious activity.
	Financial Advisor	
	Team Manager	
	Contact Centre Call Person	



TEAM	ROLE	EXPOSURE
Area: <b>HUMAN RESOURCES</b>		
Facilitate the ‘end to end’ recruitment process for all hiring. Provides advice on sourcing strategies (direct sourcing, recruitment agency management, referral drives, internal moves and headhunting), Interviewing, Background checking and offer management and feedback to candidates.	Recruitment Specialist / Talent Acquisition Manager	As involved in sourcing of candidates it is important to be aware of potential slavery in the resource pools. Particularly important in high volume resourcing such as data entry contractors.
Provide the business with assistance in all HR activities, including, attraction, engagement and retention of employees, international assignments, cultural initiatives, contractual and legal employment matters, performance management, capability building through learning and development initiatives and remuneration arrangements.	Human Resource Manager	May act as point of contact for contracting relationship management in some instances.
Area: <b>STRATEGY / BUSINESS DEVELOPMENT</b>		
Development and analysis of new banking initiatives and propositions. Initial investigation into new partnership opportunities and new market trends.	Strategist, Digital Manager, Customer Experience Lead	May be initial point of contact into new business ventures and partnerships.
Area: <b>RISK</b>		
<p>Teams involved in:</p> <ul style="list-style-type: none"> <li>Op Risk / Compliance – providing risk and compliance advisory to the frontline teams, reviewing the risk assessments and controls used across the business to mitigate the risk (inc. slavery, human trafficking and human rights risk), assurance and oversight of effectiveness of controls and compliance.</li> <li>Credit Risk Manager – provide review and approval for loan applications.</li> </ul>	<p>Compliance Manager</p> <p>Operational Risk Manager</p> <p>Credit Risk Manager</p>	<p>Team will have limited exposure to modern slavery but need to be aware of the issue in light of legislative obligations as well as being able to advise and offer guidance to the business on the risk, controls and obligations.</p> <p>Team may have exposure to modern slavery through lending applications. Need to ensure ESG elements are taken into consideration as a part of the lending approval process in order to avoid inadvertently supporting the financing of human trafficking / slavery activities.</p>

TEAM	ROLE	EXPOSURE
Area: <b>LEGAL</b>		
Involved in all legal matters, including contract negotiations, vendor/partner assessments.	Legal Counsel	Team will have limited exposure to modern slavery but need to be aware of the issue in light of legislative obligations.
Area: <b>FINANCE</b>		
Provides financial and non-financial management reporting, budgeting and forecasting, operational support, analytical insight and decision support to our business partners. May also be responsible for the financial control framework.	Financial Officer	Team will have limited exposure to modern slavery.
Area: <b>MARKETING AND COMMUNICATIONS</b>		
Accountable for company marketing and communications strategies and execution.	Marketing and/or Communications Manager	Team will have limited exposure to modern slavery, however can play a pivotal role in executing on anti-slavery campaigns within the organisation and externally.
Area: <b>LEARNING AND DEVELOPMENT</b>		
<p>The primary functions of Learning and Development are to:</p> <ul style="list-style-type: none"> <li>▪ induction of new employees</li> <li>▪ development of product, process and system skills</li> <li>▪ coaching on customer conversations</li> <li>▪ leadership and career development programs.</li> </ul>	<p>Learning &amp; Development  Manager / Consultant</p>	Team will have limited exposure to modern slavery, however can play a pivotal role in executing training and staff awareness campaigns within the organisation.

# FACILITATING INTERNAL COMMUNICATION TO ADDRESS MONEY LAUNDERING RELATED TO MODERN SLAVERY

Internal communication within most companies is generally less than ideal. The banking world is no exception. Within most large banks, there are often well-established hierarchies and departmental silos that limit the sharing of important information. To best address the risk of modern slavery in a banking situation, there must be an effective flow of information that is both inclusive and comprehensive. Good internal communication across departments is essential for the following reasons:

- **Coordination:** To protect a financial organisation from allegations of money laundering related to modern slavery, coordination among the various departments is a must. An organisation can't address internal policies smoothly without proper coordination. Through effective internal communication, it is possible to coordinate the individual responses among all departments.
- **Control:** Effective internal communication helps ensure that initiatives being used are consistent with the requirements and

needs of the overall organisation. This enables internal controls to be put in place and followed by all those involved.

- **Motivation:** Methods of internal communication help motivate employees of an organisation to be vigilant in their attempts to identify and mitigate money laundering risks. Internal communication ensures good relationships among high officials and subordinates. Through effective internal communication, employees interact with one another which acts as a motivating factor.
- **Develop the Managerial Efficiency:** To mitigate risk in an efficient and effective manner, a range of different managers must have the proper knowledge regarding the internal mechanisms of the organisation.
- **Facilitate Decision Making:** Participation of respective offices in the decision-making process not only increases the quality of decisions but also ensures the better implementation of decisions.



# CONCLUSIONS

Through this publication, our aim has been to:

- Provide comprehensive, up-to-date information on the issues of human trafficking and modern slavery;
- Offer specific information relevant to financial institutions to implement internal procedures when addressing human trafficking and modern slavery;
- Provide guidance on the types of red flag indicators and questions front line staff should be asking to ensure business and reputation risks are addressed; and
- Help move human trafficking and modern slavery higher up the AML agenda.

As mentioned throughout this document, the financial services industry has a distinct advantage in being able to identify suspicious activity. Banks can identify new and emerging money laundering trends that may be linked to modern slavery and in doing so, can also help to offset the risk to their own organisation from exposure to illegal and fraudulent businesses.

We encourage financial institutions to become more collaborative within the banking community to take a public stand against this terrible human rights violation. If a more unified response was in place, this would have a positive, tangible impact on the lives of millions of victims.

We, at the Mekong Club, would like to thank the representatives of the Financial Services Working Group for their commitment and leadership in helping to develop this training approach.



## THE MEKONG CLUB

The Mission of the Mekong Club (Association) is to act as a catalyst for change – engaging, inspiring and supporting the private sector to lead in the fight against modern slavery. Major objectives include:

1. using a facilitation process to identify the greatest challenges impacting companies addressing slavery;
2. identification of practical approaches and solutions to help address these challenges;
3. increasing the overall understanding and awareness of this issue throughout the business community in Hong Kong and the region; and
4. developing awareness throughout the Mekong region to expand the reach and impact of the Association work.

We currently work with corporations from four industries: Financial Services, Apparel and Footwear, Retail and Hospitality. For an annual membership subscription, companies receive access to the industry working groups that are most relevant to their brand. As part of this working group, they meet regularly to learn, share best practices, and network with other like-minded professionals. Further benefits include access to eLearning courses, an online knowledge center of key resources, topic-specific workshops, and resource guides.

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