

# A Modern Curse

## Fentanyl and FinCrime

A FINTRAIL Solutions thought piece

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# Introduction

As close partners of FINTRAIL Solutions are aware, we have been concerned about the impact of fentanyl - a powerful and highly addictive opioid used legally for the relief of extreme pain, but also produced and sold illegally - since early last year. The illegal use of the drug is at epidemic proportions in North America, and based on Canadian government warnings, we highlighted to clients and collaborators the potential financial crime risks that the burgeoning trade in the drug posed directly to FinTechs and their customers.

As professionals in risk management, it is easy to look at issues like fentanyl and treat them as technical problems alone: risks to be identified and mitigate. However, the fentanyl epidemic highlights the underlying human tragedies that often drive the financial crime we seek to tackle. Overdoses of illegal fentanyl are reported to have killed the singers Prince and Tom Petty(1), while the US Centers for Disease Control and Prevention (CDC) reported in December 2018 that fentanyl is now one of the main drugs involved in overdose deaths across the US(2).

This blog post is the first in a series which will look at the social causes and contexts of financial crime. The aim is to look at the problem in the round - its character, causes and impact - to help remind us why it is not only important to fight the financial crime the problem engenders, but also consider the reality for people who are caught up in these illegal trades - the mules, the users and the small time dealers, who, in truth, are victims too.

1. <https://www.rollingstone.com/music/music-features/musics-fentanyl-crisis-inside-the-drug-that-killed-prince-and-tom-petty-666019/>  
2. [tps://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67\\_09-508.pdf](https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67_09-508.pdf)

# 1. Fentanyl

Fentanyl is an opioid: a category of drug that suppresses feelings of pain in the brain, whilst also engendering states of relief and relaxation. In its legally manufactured form, it is usually prescribed for extreme, chronic pain, and is rated as being up to 100 times stronger than a sister opioid, morphine. Legitimate fentanyl is usually taken as a patch, lozenge or injection, but care has to be taken, as there is a very real risk of overdose and death(3).

Fentanyl can also be illegally sourced, either through the theft and diversion of legitimate supplies, or the purchase of synthetically produced illegal variations, usually coming as a white powder that can be 'cooked' and injected, snorted or ingested, either on its own, or in combination with other illegal drugs, especially cocaine and heroin(4).

Even in the legal variety of the drug is extremely dangerous, and is classified in the top category of most countries' controlled substance schedules(5). Indeed, the drug is so powerful that in August 2018 it was used in Nebraska to execute Carey Dean Moore by lethal injection(6), and has allegedly been banned on some drug supplier websites on the darknet, according to a 2018 report by the UK paper The Guardian(7).



3. <https://bnf.nice.org.uk/drug/fentanyl.html>; <https://adf.org.au/drug-facts/fentanyl/>

4. <https://adf.org.au/drug-facts/fentanyl/>

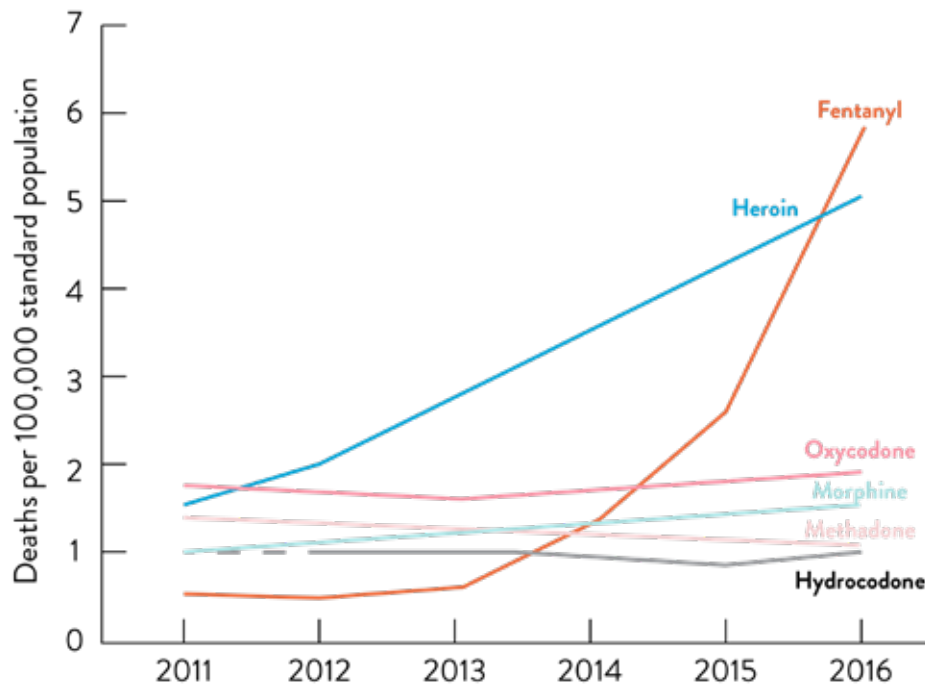
5. <https://www.dea.gov/drug-scheduling>; <https://napra.ca/nds/fentanyl/>; <https://www.gov.uk/government/publications/controlled-drugs-list-2/list-of-most-commonly-encountered-drugs-currently-controlled-under-the-misuse-of-drugs-legislation>

6. <https://www.independent.co.uk/news/world/americas/carey-dean-moore-fentanyl-capital-punishment-death-penalty-nebraska-execute-a8491671.html>

7. <https://www.theguardian.com/society/2018/dec/01/dark-web-dealers-voluntary-ban-deadly-fentanyl>

## 2. The Market

There is little doubt that the current epicentre of the fentanyl epidemic is North America. In the US, the drug has had a devastating effect; in a recently published report from December 2018, the US Centers for Disease Control and Prevention (CDC) stated that, as of 2016, fentanyl is now linked to 29 percent of all overdose deaths(8). Overall, more US citizens were killed by all opioids - of which fentanyl is most prominent - than were killed by guns or car accidents(9). This CDC chart of opioid related deaths in the US gives some indication of the dramatic rise of the problem, and fentanyl's role within it.



**Figure 1** - Synthetic Opioid Drug Poisoning Deaths, per 100,000 of US Population 2011-2016, (Source CDC)<sup>10</sup>

In Canada, the problem is equally significant. In June 2018, the Canadian authorities reported that over 4,000 Canadians had died from opioid overdoses in 2017, a new record, of which 72% were fentanyl or pseudo-fentanyl analogs(11). Outside of North America, there has also been a reported rise in deaths by fentanyl in Australia(12), New Zealand (13) and the UK(14) over recent years, although rates do not yet appear to have reached US levels. The EU Monitoring Centre for Drugs and Drug Addiction states on its website that fentanyl is a more marginal problem in the EU, affecting primarily Estonia, Germany, Belgium and Austria. However, EU statistics show that opioids as a class are becoming a greater problem in Ireland, France, Italy and Portugal(15).

8. [https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67\\_09-508.pdf](https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67_09-508.pdf), p.1

9. <https://www.centeronaddiction.org/the-buzz-blog/we-asked-you-answered-did-guns-car-crashes-or-drug-overdoses-kill-more-people-2017>

10. [https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67\\_09-508.pdf](https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67_09-508.pdf), p.4

11. <https://globalnews.ca/news/4282699/canada-opioid-death-statistics-2017/>

12. <https://www.theguardian.com/science/2018/may/13/he-was-gone-fentanyl-and-the-opioid-deaths-destroying-australian-families>

13. <https://www.newsroom.co.nz/2018/09/03/220753/drug-cartels-dealing-illicit-prescription-drugs-eye-new-zealand>

14. <https://www.theguardian.com/society/2018/aug/06/fentanyl-drug-deaths-rise-nearly-third-england-wales>

### 3. The Mechanics of the US Trade

The DEA and Department of Homeland Security (DHS) believe that the primary source of the illicit versions of the drug is China - one of the most popular terms for a range of fentanyl analogs is in fact 'China White.' Laboratories run by Chinese organised crime gangs produce high volumes of fentanyl, which are then marketed to other transnational traffickers, including the Mexican cartels, who move the drugs into North America. Fentanyl flows across the Pacific to Canada and Mexico via mail order services and smuggling, where it is often mixed with other drugs, and then smuggled into the US via the north eastern and south eastern borders(16). The drug often comes in a powdered form, or disguised as the tablet forms of legal pharmaceuticals, such as oxycodone and hydrocodone(17).

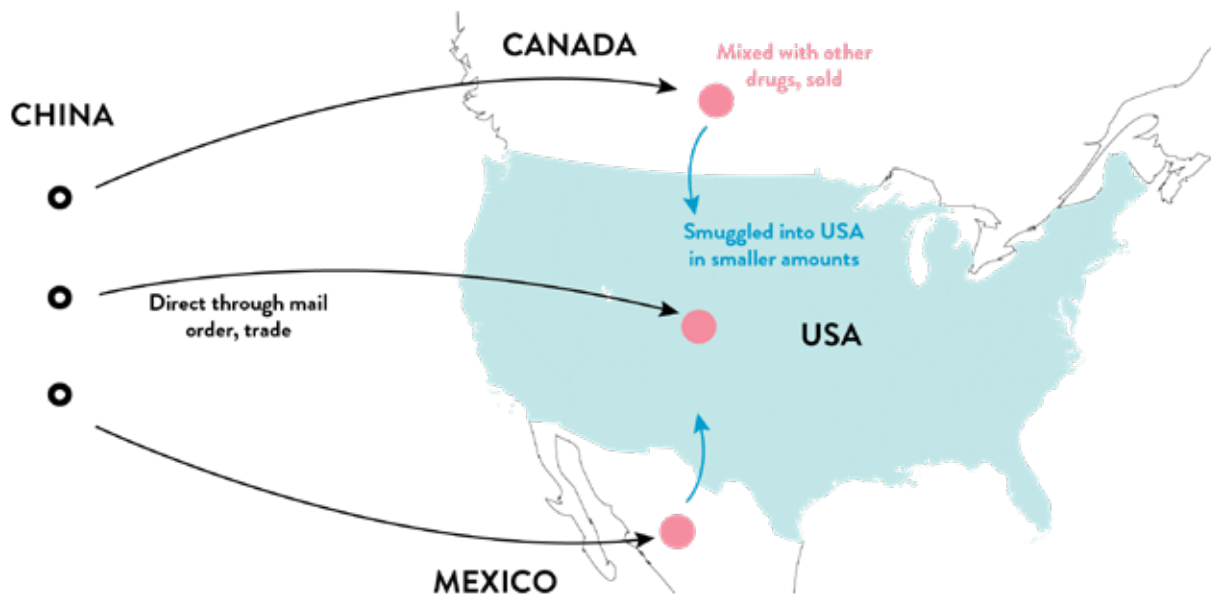


Figure 2 – Fentanyl Routes into North America (Source DEA)(18)

The secondary source, and one of growing significance, is Mexico itself. In 2016, the DEA reported its suspicion that the Mexican cartels were 'branching out' into the production of fentanyl, using imported precursor chemicals from the US and China(19). Over the last year this assessment has been confirmed by busts in Mexico, including one in December in the capital, that have revealed the existence of cartel-managed fentanyl labs(20).

The mixture or 'cutting' of fentanyl with other drugs, such as cocaine or heroin, makes the combined hybrid drug even stronger and more addictive, and further help us understand why its market is so sustainable. First, selling fentanyl keeps the costs of the traffickers and pushers down, because a small amount, though dangerous and potentially toxic, is relatively easy to produce and ship, yet has extreme potency. Second, the potency of the drug, especially when combined with other narcotics, means that users become quickly and highly dependent, ensuring that the suppliers have a captive market. Some of the strongest markets for fentanyl are in US states that already have high rates of opioid addiction. This is borne out by a DEA report indicating that many of the younger users of fentanyl turned to the drug once they could no longer obtain and/or afford illicit pharmaceutical opioids(21).

The prospects of breaking this market in the short-term appear bleak. The problem has become so great that the US President, Donald Trump, has pressured his Chinese counterpart, Xi Jinping, to take action against the Asian end of the trade, most recently at the November/ December 2018 G20 summit in Argentina. Although President Xi was supportive, it is likely to take some time before practical action occurs(22). Moreover, recent Canadian requests to China for similar help have been less warmly met, largely because of ongoing disputes over the return of Chinese fugitives to Canada(23). As long as the Canadian and Mexican gateways to the US remain open, the scourge of fentanyl in North America is likely to continue.

## 4. Fentanyl, FinCrime & FinTechs

What role then for FinTechs?

For the last five years, there has been media ‘hype’ about the roles that FinTech platforms might play in the purchase of illegal drugs. Payments providers have been put out of business because their platforms have allowed individuals to buy illegal items unimpeded. In 2013, for example, the US Department of Justice (DoJ) closed Liberty Reserve, a digital payment processor, for facilitating the sale of drugs and child pornography, while cryptocurrencies are of particular current concern. In June 2018 the US media reported a DoJ enforcement action named ‘Operation Dark Gold,’ to stop the darknet sales of drugs using Bitcoin and other cryptocurrencies(24).

Our clients’ experience tends to be more prosaic than some of these more sensational media cases. As a recent FinTech FinCrime Exchange (FFE) survey of UK FinTechs demonstrated, most financial crime typologies experienced in the UK cryptocurrency sector were around varieties of customer fraud (25). Nonetheless, we still believe that FinTechs have a responsibility to take these issues seriously. There are potentially striking indicators that, in combination, should raise concern (see breakout box), and we would urge all FinTechs working in payments services, retail accounts, prepaid cards and crypto transmission and exchange providers to give them due attention in their financial crime investigations.

<b>Unusual Chinese transactions</b>	Customers buying items from China, especially where this does not fit with the customer transaction profile or nature of businesses, along with multiple unconnected payments to a single individual in China;
<b>Unusual health products</b>	Firms offering apparently pharmaceutical or health products who demonstrate other unusual indicators such as those listed here;
<b>High use of currency exchanges</b>	Multiple payments from global currency and cryptocurrency exchanges, usually in small amounts; and
<b>Tags and nickname</b>	Payments including nicknames such as Apache, China Girl and China Town, or precursor references such as NPP or ANPP.

At the same time, the case of fentanyl drives home the need for FinTechs to take a longer term view too about the types of business they are doing. As regular readers of the FINTRAIL and FINTRAIL Solutions blogs will know, we recommend some basic prevention methods that include active risk assessment and defined risk appetite. We have found that its critical for FinTechs to take basic risk management seriously from the beginning - asking themselves questions about the vulnerabilities of their product and the risks that opens them up to. If you think your company is vulnerable, then take action. Get the basics right. Because it is in no one’s interest to facilitate the sale of a drug like fentanyl.

If you would like to know more about how FINTRAIL Solutions and how we can help you and our business better manage financial crime risks, please contact us at [contact@fintrailsolutions.com](mailto:contact@fintrailsolutions.com).

22. <https://edition.cnn.com/2018/12/01/politics/fentanyl-us-china-g20-talks/index.html>

23. <https://globalnews.ca/news/4658188/fentanyl-china-canada-diplomatic-tensions/>

24. <https://www.theverge.com/2018/6/27/17509444/dark-web-drug-market-money-laundering-hsi-dark-gold>

25. <https://www.fintrail.co.uk/news/2018/8/28/cryptocurrencies-getting-serious-about-financial-crime-risk-management>

# The Authors

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Krista Tongring oversees a variety of compliance issues and investigations for clients including AML, trade compliance and anti-corruption matters. Previously, she had an accomplished career at the U.S. Department of Justice having most recently served as the Acting Section Chief at the Drug Enforcement Administration Office of Compliance. She led policy discussions and developed strategies to implement new and revised policies. She also worked to establish a more efficient policy review process. Ms. Tongring spent a significant portion of her career as a federal prosecutor where she investigated and prosecuted complex criminal matters, including racketeering, money laundering, abusive trust and other tax matters, international organized crime, criminal asset forfeiture, and violations of the Bank Secrecy Act.

# Thank you

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