

Fund Transfers That Evade Surveillance

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1. Cash

2. Hawala

Indigenous Terms

- ✧ Black *hawala*
- ✧ Black market peso
- ✧ *Chit* System
- ✧ *Fei Qian*, or *fei ch 'ien* or *Poey Kuan*
- ✧ *Havaleh*
- ✧ *Hawala*
- ✧ *Hundi*
- ✧ *Huwala*
- ✧ White *hawala*

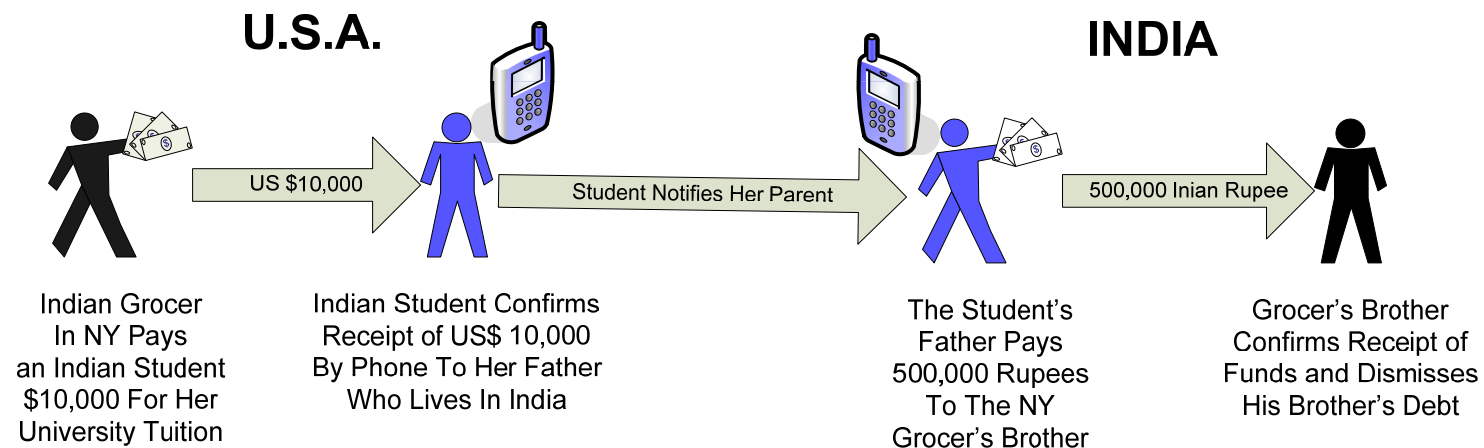
Descriptive Terms

- ✧ Alternative Fund Transfer system
- ✧ Alternative Remittance System
- ✧ Flying Money
- ✧ Informal Financial Center
- ✧ Informal Financial Mechanism
- ✧ Informal Fund Transfer System
- ✧ Informal Value Transfer Systems
- ✧ Money Changers
- ✧ Money Exchange Dealers
- ✧ Traditional Money Transfer System

GROCERY SHOP FX

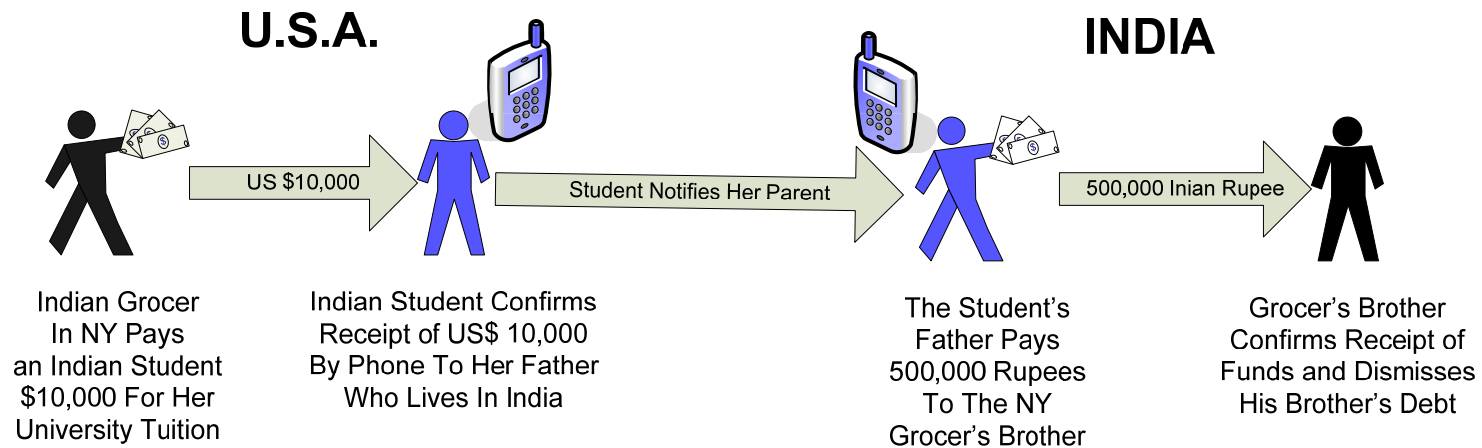
SETTING UP THE SCENARIO

Section I: The Hawala Sequence of Events



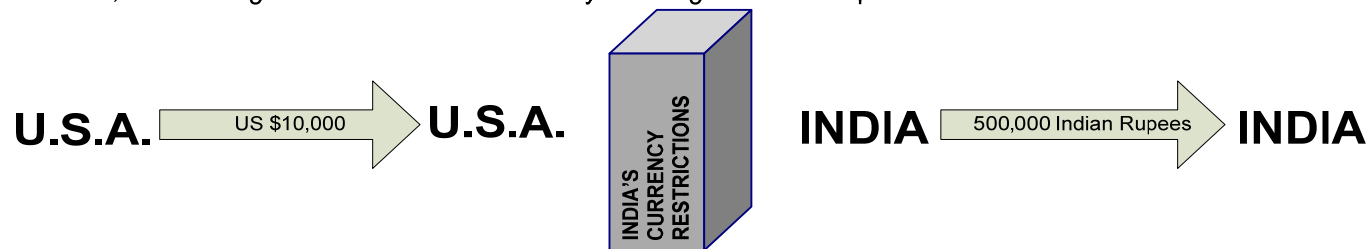
Source: Parandeh, Sassan C., 2010. "Hawala: The Fund Transfer Methodology That Evades Surveillance". *Journal of Cash Management*. Vol. 3 No. 1.

Section I: The Hawala Sequence of Events



Section II: The Actual Physical Movement of Funds

The events in Section-I required the movement of US Dollars only within the USA and Indian Rupees only within India. Therefore, the Indian government's official currency exchange rate and capital outflow restrictions become irrelevant.



Source: Parandeh, Sassan C., 2010. "Hawala: The Fund Transfer Methodology That Evades Surveillance". *Journal of Cash Management*. Vol. 3 No. 1.

What Amateur *Hawala* Requires


 TRUST

 DOUBLE COINCIDENCE

 HIGH RISK APPETITE

History

 *Silk Road*

 *4000 miles – 3000 years*



HAWALA/FEI QIAN

Knights Templar

- ✧ **First Crusade**
- ✧ **1119 to 1314**
- ✧ **Protect Christians**
- ✧ **Learned Silk Road methods**
- ✧ **Adopted Hawala**
- ✧ **Offered Hawala to public**

Oldest Hawala In Christendom

1156 AD

Genoese brothers owed 115 Genoese Pounds

Repaid in Constantinople with 460 Bezants

BROKERED HAWALA

Brokered Hawala

- ✦ Done through “*Hawaladar*”
- ✦ *No need for double coincidence*
- ✦ *Pools of Brokers facilitate For Pools of Customers*

The mechanics of a brokered *hawala*:

- ✦ Customer contacts *hawaladar*
- ✦ *hawaladar* contacts other *hawaladars*
- ✦ *hawaladars* accept deposits
- ✦ *hawadars* issue secret password to customer
- ✦ Customers pass the secret passwords to affiliates
- ✦ The affiliates divulge the secret password to receive funds.
- ✦ *hawaladars* purge all records

Global Law Enforcement Concerns

1. Undetected International Fund Transfer
2. Black Market Foreign Currency Conversion
3. Transaction lack audit trail
4. Elude surveillance
5. Ignore laws and regulations
6. Evade Tax, custom, or levies
7. Laundering money
8. Financing criminal activities

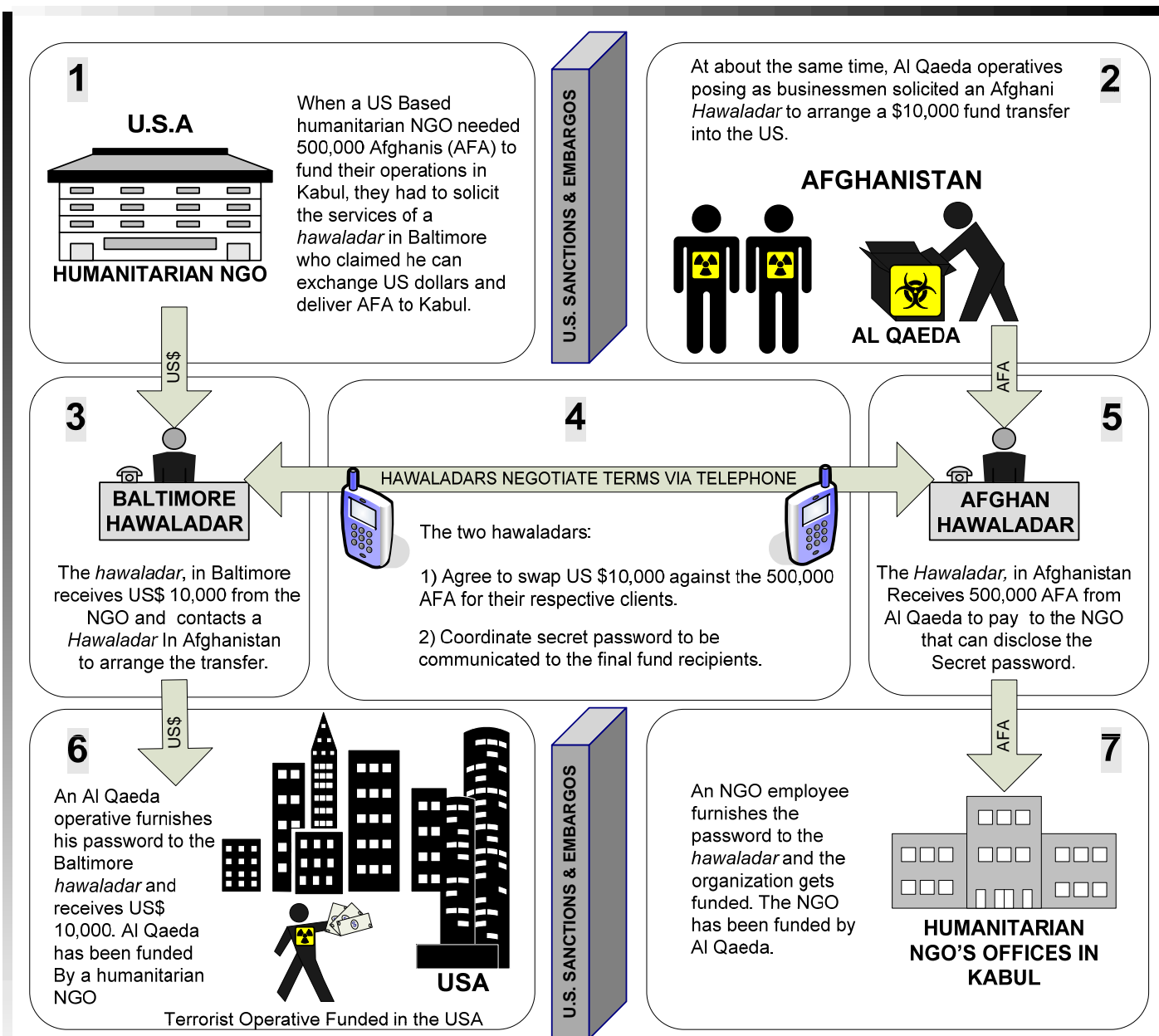
Niche Concerns In Developing Nations:

1. Competition against government rates
2. Breaching capital drain laws
3. Corruption

Key US Concerns:

1. Monetary policy distortion
2. Distort/Compete against formal markets
3. Terrorist funding & crime
4. Evading US government sanctions

HOW THE INNOCENT MAY INADVERTENTLY HELP CRIME



Older US Concerns:

1. BSA of 1970 tax evasion and money laundering
2. Suspicious Activity Reports
3. FBAR & TD F 90-22.1
4. IRS Form 8300

5. 1995 Executive Order 12947 (mid-East Peace Talks)
6. 1998 Executive Order 13099 (Sanctioning Osama Bin Laden).

Facts:

- ✦ 9/11 Terrorists used regular banks
- ✦ Terrorism is very inexpensive
- ✦ 9/11 only cost \$500,000
- ✦ Pilot training, terrorist camp & travel over the preceding 18 months was only \$12K/Person.
- ✦ Hijackers opened accounts in their own legal names

Newer US Concerns:

1. 9/11 - Terrorism
2. UNSCR 1373
3. Executive Order 13224
4. USA PATRIOT Act
 - a. Know Your Customer (KYC)
 - b. Customer Identification Program (CIP)

USA PATRIOT ACT:

Know Your Customer (KYC) or Customer Identification Program (CIP):

-  Verify identity
-  Maintain records
-  Check OFAC list

Irony:

The better controls get in banks and formal channels, the more attractive Hawalas become.

Legitimate Uses of Hawala

- ✦ Un-banked Regions
- ✦ First Respondents
- ✦ Bank of Last Choice For Dissidents & Persecuted
- ✦ Cultural Norm – Business as Usual

Recommendation To US Treasury

✦ Subject clients of *Hawala* to disclosure rules.

END