

*The Third International
Conference on Hawala at Abu
Dhabi UAE*

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Hawala

The Challenges for Law Enforcement
Authorities

HAWALA

Commonly Known As

- Informal Value Transfer System**
- Alternate Remittance System**
- Underground Banking System**
- Paperless Banking System**

SYSTEM CREATES ITS OWN **CHALLENGES**

- A Bank of **Blue-Collar** Workers
- Parallel to the Formal Banking Channels
- Hawaldars do Maintain Proper Books which are Not Available to Enforcement Agencies
- No Audit / Reporting Requirement
- Regular Reconciliation of A/Cs b/w 2 Hawaladars

SYSTEM CREATES ITS OWN **CHALLENGES**

- **More or Less the Pattern of Correspondent Banking**
- **Remove Liquidity Constraints with Mutual Cooperation**
- **Used for Legitimate Transaction being smooth, Efficient, Cost-Effective, Favorable Exchange Rate & Dependable System**

SYSTEM ?

- **System itself is Not Criminal rather it is the User who Misuses it for his Nefarious Designs**
- **Not a ‘New Revelation’, Every System of Every Society created for the Welfare of the People has been Misused by the Criminal-Minded People. Simple Example—Formal Banking System**

(a) INFORMAL VALUE TRANSFER

- **Common Concept of Hawala**
- **2 Hawaladars Involved**
- **Usage of Fast Means of Communications**
- **Money remains at both the Place of Origin as well as the Destination**
- **Example—Mr. B & M/s AKK**

(a) INFORMAL VALUE TRANSFER

01 01 1997

Mr. B



Joint Venture
Forex Business

M/s AKK



E U R O P E



Mr. B

M/s AKK

Salient Features of MOU dated 01-01-1997

- **Permission / License to Deal in Forex to be in the name of M/s AKK Intl**
- **Paid-up Capital of GBP 200,000/- to be contributed equally**
- **Furnished Office in London to be arranged by Mr. B**
- **AKK's representatives to carry out day-to-day operations under supervision of Mr. B**
- **For Tax requirements all necessary Accounting records to be maintained and kept at London Office**
- **Profit and Loss to be shared Equally**
- **All Policy Decisions to be made Unanimously & in Writing**

Format of Receipt Used by M/s AKK Intl at the Time of Delivery

DATE _____ MSG NO. _____

NAME _____

ID TYPE / NO _____

AMOUNT RECEIVED _____

SIGNATURE OF RECEPIENT _____

Book-Keeping Format Used by M/s AKK Intl



Date	Ref	Particulars	Rate	Debit	Credit	Balanace
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Performance of M/s AKK Intl

From January 1997 to August 1999

- **Total Hawala Transactions To Pakistan
& Various Parts of Europe** **GBP 150.0 M**
- **Net Profit Earned During the Period** **GBP 7.50 M**
- **Share of M/s AKK** **GBP 3.75 M**
- **Share of Mr. B** **GBP 3.75 M**

(b) INFORMAL REMITTANCE SYSTEM

- **1 Hawaldar is used**
- **Remittance takes place thru Formal Banking Channels But Involves Layering**
- **Money Goes out of Economic System of Origin and Reaches the Destination**
- **Examples :**
 - **‘Z’ Family – High Profile Politicians**
 - **A.R & Co –Saudi Based Exchange Co.**

(C) MERGING LINES

- **Value Transfer by using both Formal & Informal System Simultaneously**
- **1 Hawaldar is involved**
- **Remittance takes place thru Formal Banking Channels But Involves Layering**
- **Money Goes out of Economic System of Origin and Reaches the Destination**
- **Example : Mr. R**

Scottish Bank



Mr. 'R' –A Licensed Money Changer in U.K.



Loan From Bank 'X'

Guarantee

Bank 'X' in Pakistan



Deposited Back in Bank 'X'

Branch in City 'A'

Branch in City 'B'

Branch in City 'C'

Branch in City 'D'

Branch in City 'E'

Branch in City 'F'



d. Physical Carriers



Example – AKK Intl

Routes

**London-Frankfort-London
& London-Amsterdam-London**

Total Trips

**221 Trips by Physical Courier
From 01-01-1997 to 01-08-1999**

e. Commodity Trade

Afghan Transit Trade



f. Over & Under Invoicing

Misuse of Formal Banking System

- Proceeds of Crime made its way into the Banking System without any Hindrance.
- Mushroom Growth of Shell Companies in Offshore Heavens with their Bank Accounts spread over the Globe
- Despite all KYC Standards, Dirty Money is Still making inroads in the Banking System

Dignified Hawaladars

- Private Bankers



- Attorneys



- Real Estate Agents



Challenge Faced By Pakistan

- *Money Changing Business*
- *Mandate to sale / purchase foreign Currency*
- *Involvement in Hawala Business*
- *Mushroom Growth of unregulated money changers*
- *Inter-Agency Task Force – SBP, SECP & NAB*

Pakistan's Response To The Challenge

- *In 2002, State Bank of Pakistan made amendments in Foreign Exchange Act 1947*
- *Existing money changers were required to transform themselves by 30th June 2004*
 - *Exchange Companies*
 - *Work on Franchise basis*
 - *Leave the Business*

Pakistan's Response To The Challenge

- *Mandate – to deal in foreign currency, notes, coins, postal notes, money orders, bank drafts, traveler cheques and transfers*
- *Incorporation as Exchange Company with SECP under Companies Ordinance*
- *Capital Requirement of Rs 100 Million*
- *Record Keeping Requirement*
- *KYC/CDD Requirements*
- *Periodic Inspection by State Bank of Pakistan*

Pakistan's Response To The Challenge

- *In 2004, the small money changers were encouraged to form Exchange Companies of **Category-B***
- *Mandate – to undertake sale / purchase of foreign currencies only*
- *Incorporation as Exchange Company-B with SECP under Companies Ordinance*
- *Capital Requirement of Rs 20 Million*
- *Record Keeping Requirement*
- *KYC/CDD Requirements*
- *Periodic Inspection by State Bank of Pakistan*

Pakistan's Response To The Challenge

- *Full Fledged Exchange Companies* 26
- *Exchange Companies Category –B* 33
- *SBP, SECP & NAB initiated Awareness Campaigns to educate*
 - *Public through media*
 - *Law enforcement agencies through close collaboration / Exchange of Information*
 - *Exchange companies through compliance of regulatory measures.*

Pakistan's Response To The Challenge

- *Effective regulatory measures resulted in cancellation of one license of Exchange company and business suspension of another company*
- *Formation of Exchange Companies has helped in controlling the illegal Hawala business in Pakistan.*

Challenges Ahead ?

- *To identify the small Hawala operators in small cities and far flung areas*
- *To educate Exchange companies in identifying STRs and reporting mechanism in vogue.*
- *To monitor the operations of licensed Exchange companies*
- *To keep the public informed about the legally available services*

Thank
you