

# **THE IMPACT OF GLOBAL INTERNATIONAL INFORMAL BANKING ON CANADA.**

An empirical research study commissioned by

The Nathanson Centre for the Study  
of Organized Crime and Corruption

and

The Law Commission of Canada.

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# **INTERNATIONAL INFORMAL BANKING SYSTEMS OPERATING IN THE GREATER TORONTO AREA.**

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## **SECTION I**

### **1. INTRODUCTION AND OBJECTIVE:**

This research project was commissioned by the Law Commission of Canada and the Nathanson Centre of Organized Crime and Corruption. The primary objective of the research project was to collect empirical information on the informal banking or hawala systems operating in a specific region in Canada (the Greater Toronto Area, or “GTA”). Participants from three different immigrant communities were interviewed for the study. All participants were of **Afghani, Pakistani** or **Indian** origin.

Hawala is derived from the Arabic root, h-w-l, meaning “change” or “transform” (Buencamino and Gorbunov, 2002:footnote 13; Jost and Sandhu, 2000:11) or “transfer” (Miller, 1999:2; Passas, 2003:2; El-Qorchi et al, 2003:6; El-Qorchi, 2002:1, Tuey, 2004:15). In the Hindu interpretation, hawala gained the additional meaning of “trust,” reflecting how the system operates (Jost and Sandhu, 2000:12). Overall, hawala is a bill of exchange or promissory note (Jost and Sandhu, 2000:11; Buencamino and Gorbunov, 2002: footnote 3). Aggarwal (1966:xxxviii) defines a bill of exchange as “a written order for the payment of a certain sum of money unconditionally” and “[a] promissory note is a written promise to pay a certain sum of money unconditionally.”

Hundi is used interchangeably with hawala because it refers to the same system (Buencamino and Gorbunov, 2002: footnote 3; Jost and Sandhu, 2000:11; Passas, 2003:3; Tuey, 2004:15). Hawalas are also known as hundis (Jost and Sandhu, 2000:1:11). Which term is used seems to depend on the region of the system. For example, hawala is typically used in India, while hundi is used in Pakistan and Bangladesh (Shehu, 2003:3; Passas, 2003:3; Tuey, 2004:15). The hundi system facilitated the transfer of funds, helped finance trade and commerce and provided both currency and credit (Aggarwal, 1966:363). Hundi comes from the Sanskrit root, hund, which means “to collect” (Aggarwal, 1966:362; Jost and Sandhu, 2000:12, Tuey, 2004:15). Thus, the purpose of negotiable instruments such as promissory notes or bills of exchange was to collect debts (Aggarwal, 1966:362). Hundis have many strict rules and customs that the legislature and courts adhere to. The different types of hundis include the *Darshani Hundi*, who is payable on sight, and the *Miadi* (or Muddati or Thavani) *Hundi*, who is payable at a later date (Aggarwal, 1966:365, 367; Passas, 1999:15, Tuey, 2004:15).

The Indian language translation for ‘do numbri’ or ‘kala paisa’ is number two and implies black money or refers to the source of the funds (i.e., black money). ‘Eik numbri’ means number one and implies white or clean money. It is also important to note that some of the terms (i.e., ‘do numbri’, ‘kala paisa’, ‘eik numbri’ or ‘edihar ka udhar’), have not been referred to in the existing reviewed literature. However, these words were used frequently by certain participants during the interviews. Infact, a distinction made between ‘white hawala’ and ‘black hawala’ or ‘kala

paisa/do numbri'. White hawala, for the purpose of this research work, is assumed to be remittances flowing into a recipient jurisdiction, even though these may be earned by individuals that do not have legal status in a country where the funds are earned (i.e., illegal immigrant's remittances). Black hawala refers to funds flowing out of recipient countries and were, in some cases, assumed to be tax evasion or black money (i.e., 'hot' or 'garam'), funds.

The typical economic transaction that forms the basis of this research project is a transfer of funds, and it can be divided into two parts: the dispensing of funds to clients and the settlement process between financial agents. Briefly, it consists of a client in a jurisdiction (in this case assumed to be Canada or the United States), approaching a financial agent in the community and requesting a transfer funds to another individual, residing in the same or another jurisdiction. The financial agent upon accepting the funds executes the transaction through another financial agent located in the second jurisdiction. The dispensing of the funds to the recipient(s) usually takes between 24 to 48 hrs. And accounts are settled between the two financial agents using various methods, if not through reverse transactions, which often is the case (See El-Qorchi, 2002:1-2; El-Qorchi, 2003:6-7; Passas and Maimbo, 2003:5; Buencamino and Gorbunov, 2003:2; Passas, 1999:14; Jost and Sandhu, 2000:2-5; FATF, 2000:6; FinCEN, 2003:4-5).

Post 9/11, these informal transaction processes are becoming an increasingly important target for security driven regulations and enforcement. The reason for targeting the process / system is their alleged role in financing illegal and terrorist activities (Passas 2002:2. Wilson, 2002:8; Carroll, 2001: 18). The potential for being misused by terrorist or other criminals has propelled jurisdictions into passing laws and regulations to control these informal banking systems. However, the anonymity offered by these systems, (which in some cases is their purpose with limited or no paper trail); often to remote areas that lack infrastructure; and usually within ethnic communities, make these systems 'suspect' *and* make them difficult to 'police'. In fact, identification of existence of the systems is itself a serious problem. Knowledge of language, values and culture of the community are integral in identifying their existence.

The empirical data for this research consists of interviews conducted with the informal banking systems participants transferring funds, within and outside of Canada (herein referred to as "Financial Agents"), and individuals sending and receiving funds (herein referred to as "Clients").

This paper identified, analyzed, and based conclusions on the following information:

- The nature of the participants of the informal banking systems (Who are the Financial Agents? What is the client base? What is the fee charged? Why do Clients not use banks?).
- The operational characteristics of transactions (the actual process of transaction execution and the settlement process among Financial Agents.)
- The relationship of the informal banking systems to informal banking systems in other communities/jurisdictions.
- The patterns and trends relating to the flow-of-funds in and out of Canada.
- The challenges posed by the informal money transfer systems and their global nature to Canada's regulatory structure and policies.

Accordingly, Section I consists of the Methodology and Assumptions used in the research project. Section II states findings and are categorized as General Observations and Community Specific Analysis. And lastly, Section III consists of Conclusions / Recommendations.

## **2. METHODOLOGY:**

Before entering the fields to begin the interviews, a review of the existing literature was carried out. This exercise revealed the very limited secondary data that was available—and what was available did not include field interviews with people who were actually involved in these informal value transfer systems. No studies were identified that involved the collection of data by interviewing the actual participants of transactions, as attempted in this study. Empirical information for this project was gathered via participant interviews with both Financial Agents and Clients.

### **Literature Review**

Existing research in this field can broadly be divided into:

- Research relating to the evolution and institutional foundation of the system, (for example, research done by Schramm and Taube, Dasgupta, Granovetter, Greif, Raub, Telser, Buchanan, Aggarwal, Axelrod, etc);
- Principles governing the system / process, (in certain cases its association with Islamic law), (for example: Kuran, Posner, Ray, Zahraa, Iannaccone, Inalcik, etc);
- Policy / legislative initiatives take by governments, (for example, the works of Passas, Maminbo, El-Qorchi, Butler, Mark and Boyle, Rachelle, FinCEN, etc);
- Interviews conducted with law enforcement, (for example, Josh, Patrick, and Sandhu, Carroll, etc); or,
- Research regarding the potential risk the system poses or can be subjected to (for example, Shehu, Passas, Looney, Kapoor, etc).

## **Interviews**

The study was broad-based and cross-sectional, but it cannot be considered a complete illustration of the informal banking system in the GTA or indicative of the complete structure in the recipient countries due to many occurrences of participant reluctance. This hesitation appeared to be due to the concern that increased visibility might result in an increase of governmental involvement in their operations and jeopardize their livelihoods (in the case of the agents) or the transfer facility (in the case of the clients). Participants from three different immigrant communities were interviewed—Afghani, Pakistani, and Indian. All interviewed Financial Agents and Clients were of the following origin: Afghani (Afghanistan), Pakistani (Pakistan) or Indian (India). They were based in the region of the GTA. The reason for selection of the participants was that they are all immigrant communities, well established and most importantly, willing to be interviewed. The interviewer was familiar with the language, culture and values of these communities and was initially introduced by well respected individuals.

Most participants were specifically identified through community liaisons. Subsequent interviews were completed through the snowballing process (i.e., after being introduced by a previous participant). Although the introductions and the snowballing process for the interviews called for concern regarding the validity and reliability of the information, this method was necessary considering the nature of the study. All interviews were held at the work place of the participants, with the exception of certain participants that were introduced socially. Most interviews were in-person during which hand written notes were taken, with certain exceptions due to travel schedules of the participants. And for these interviews the introductions and interviews were done by phone. Follow-up clarifications were done by phone mostly.

All interviews were free ranging discussions around pre-determined questions for which confidentiality was guaranteed ([Attachment 1](#), Questions around which the discussion was held). Given the nature of the discussions, this research is only meant to reflect / state prevailing conditions in this particular time in a specific area. Due to time constraints, further in-depth study is recommended. The project was completed within three months. The initial contacts with introducers in different communities were done upon acceptance of the proposal, but the actual interviews with participants were done upon receiving approval from the ethics committee.

### **Process of Identifying and Introduction to the Financial Agents:**

- Majority of the Financial Agents were first approached through a respected member of their community before being approached by the interviewer (hence were willing to be interviewed).
- ‘Snowballing’—some Financial Agents were introduced by the initial Financial Agents.
- Some Financial Agents were referred by clients who made the initial introductions.
- A small number were located through newspapers. Almost all approached in this method declined being interviewed.

Hence every interview was done through a reference/introduction.

Financial Agents:

Total number of Financial Agents approached: 45.

Total Number interviewed: 30

15 Financial Agents declined to be interviewed.

The break up of the interviewed Financial Agents: 11 Afghani, 7 Pakistani, and 12 Indians.

### **Process of Identifying and Introduction to the Clients:**

Initially, Clients were introduced using an introducer from the community. Subsequent interviews were held at the Financial Agents locations (i.e., they were walk-in clients of the Financial Agents).

Clients:

Total number of Clients approached: 20

Total number interviewed: 16.

4 Clients declined interviews.

The break up of the interviewed Clients: 5 Afghani, 4 Pakistani, and 7 Indian.

### **3. ASSUMPTIONS:**

One of the basic assumptions of this study is that the transaction (i.e., the transfer of funds) is a simple economic process. There is nothing *per se* illegal about it. This economic process *always* involves a source of funds. Typically, the source *determines* whether or not the process is legal. For example, if the source is remittances or earnings, it is usually considered legal by governments and if the source is black money or capital flight it is considered illegal. Post 9/11 governments are also concerned with the destination *use* to which originally legal funds might be put.

The origin of the process was necessity and it has continued to exist and flourish due to both a continuing need and the conveniences and reliability of the system—such as low overhead structural costs, lack of banking structures, illiteracy, and illegal immigrant populations who are excluded from the more formal institutions. (El-Qorchi, 2002:3; El-Qorchi, 2003:1,10; Passas, 1999:16-27; Carroll, 2001:4). It is argued that the process is essential for economic development and its original or traditional role as reliable, efficient and cheap has to be acknowledged before considering the potential abuse to which it may be subjected (Tuey, 2004).

This abuse is not different from the potential abuse to which any federally registered and supervised bank can be subjected. Neither is this process any different from the legal transfer process (i.e., banking), where physical money is not transported, only debits and credits are communicated between the interacting parties (Wilson, 2002:5-6; Passas 2003:7). Subsequent or final settlement between interacting parties may require a transfer of value (such as, a transaction through trade or a wire transfer), only if reverse transactions are not adequate to settle accounts and there is a disproportionate flow of funds one way, over a long period of time (El-Qorchi et al, 2003:14; Wilson, 2002:7).

Furthermore, this process is integrally tied to cash economies. Because of its very nature, it is considered opaque and thus mysterious. When in reality, there is nothing mysterious about the process; it is just a simple process of economic exchange. Since it is usually ethnic community



based, understanding the values, culture, language and gaining the trust of the participants of the community is integral to identifying its existence. Importantly, during all interviews, the interviewer consciously refrained from using certain phrases, such as ‘hawala’, ‘hundi’, ‘do numbri / eik-numbri’, ‘kala paisa’ or ‘edihar ka udhar’, etc, due to the negative connotations attached to these phrases. Instead, the ‘transfer of funds’ or ‘to remit’ or ‘to send’ was used.

For the purpose of this study, Canada and the United States were ‘Source Countries’ based on the assumption that participants (i.e., Clients) earn funds in these countries, and send them back to their country of origin. And the countries of origin, (i.e., Afghanistan, Pakistan or India), are assumed to be the ‘Recipient Countries’.

Canada and the United States are considered to have:

- Economically developed economies.
- Developed financial markets and banking structure.
- Highly regulated financial markets.
- High level of immigration into the country.
- High level of education.

Afghanistan, Pakistan and India are assumed to be Recipient Countries for the purpose of this research study. Following are the regulatory and economic development assumptions made by the interviewer regarding these jurisdictions:

	<b>Afghanistan</b>	<b>Pakistan</b>	<b>India</b>
Economic development:	Economically under developed.	Developing country.	Economically most developed of the three Recipient Countries.
Basis of economic exchange:	Cash economy.	Cash economy.	Primarily a cash economy although credit/debit cards are also used (but the use is limited).
Economic infrastructure:	Non existent financial markets and weak banking structure.	Moderate financial markets and moderate banking structure.	Stable financial markets and strong banking structure.
Regulation:	Weak financial regulation.	Currently increasing financial regulation (but lack of effective enforcement).	Regulated financial markets (Banks, not securities markets).

Population trends:	High level of immigration out of Afghanistan (mainly into Pakistan).	High level of immigration out of Pakistan.	Moderated level of immigration out of the country.
Education / Literacy:	Low level of education.	Focus on religious education ('madrasas').	High level of education / literacy (secular).

## **SECTION II**

### **4. GENERAL OBSERVATIONS REGARDING FINANCIAL AGENTS:**

#### **4.1. *Legal Status:***

All participants (Financial Agents and Clients) are immigrants from Eastern regions of the world (Afghanistan, Pakistan, or India). Most of the Financial Agents are legal immigrants, citizens or second generation immigrants. They are financially established, respected, and connected within their communities. They are also well connected in their countries of origin. The Financial Agents who did not immigrate directly to Canada from their countries of origin have a wider network and they also transfer funds to mid-jurisdictions. For example, the Financial Agents of Indian origin whose families first immigrated to Africa and subsequently immigrated to Canada generations later, also transfer funds to parts of Africa. This is understandable because they have community and family contacts in these mid-jurisdictions. The exception to this observation is Indian business people. They are visitors with business interests in Canada and the United States, but they are well connected in their communities.

#### **4.2. *Trust:***

Trust underscores each transaction and sediments relationships between a Clients and a Financial Agent and between Financial Agents. A mild variation, however, was observed between the three communities. In the Afghani community, it is trust with a strong feeling of kinship and honour towards the community (i.e., being an Afghani was enough to trust the Financial Agent and the Financial Agent in return wanted help the Afghani clients). Seemingly, the Financial Agents were carrying out transactions for the good or betterment of the community. In the Pakistani community trust was re-enforced with religion and the relationships had religious undertones. For example, not charging a fee for the transaction is a religious obligation. In contrast, there was an absence of religion or honour in the Indian community. And transactions were executed purely for the economic gain of the Financial Agents.

An additional variation of trust was observed between a Client and Financial Agent. This variation was different from the traditional trust between a Client and a Financial Agent to execute a transaction or a high level of trust between Financial Agents. The variation involved the Financial Agent executing a transaction *before* receiving the funds from the sender clients. One such incident witnessed involved a Financial Agent undertaking delivery of funds for a Montréal

based client to a recipient in Islamabad before receiving funds from the Montréal client.

There was no mention of violence or fear tactics used to ensure compliance in transactions among Financial Agents with the exception of one Financial Agent who commented that in the United Arab Emirates, trust in addition to fear ensure compliance. However, the Financial Agent attached a disclaimer to this comment by adding that he had heard it in the marketplace and none of his associates had experienced any such incident.

#### **4.3. Primary/ Secondary Business:**

A differentiation was observed between the Financial Agents that considered money transfer a primary business and those that considered it a secondary business. For the majority of the Financial Agents interviewed, the transfer of funds was not a primary business. It was an ancillary to a main business. In fact, the transfer of funds was a service provided to increase their primary business (i.e., clients requiring transfers make purchases from the primary business [e.g., a grocery store], therefore this service is an added attraction for increasing their primary business). Also, the transfer of funds was the *only* financial service provided by the Financial Agents. None mentioned undertaking any other financial service such as check cashing or credit services.

The primary business is *always* cash intensive (for example, a restaurant, convenience store, butcher store, carpet store, bakery, used car parts and auto garage services, etc). This is essential for the process because the Financial Agents need a pool of funds at their disposal to conduct transactions. The Financial Agents deal with various transactions at any given time. Some transactions consist of clients sending funds, and other transactions consist of clients receiving funds. In the first case, the Financial Agent receives funds from the client and in the second, the same Financial Agent is required to dispense funds to other clients at the request of other Financial Agents. It was stated that the accumulated funds from first or sender clients were not adequate to execute the transaction for dispensing funds at the request of the associated Financial Agent in the second case. In such cases, the Financial Agent needs to use his own funds for executing the transaction. Therefore, it is essential for business to have access to large pools of funds at all times.

A minority of Financial Agents consider money transfer a primary business. Typically for these Financial Agents, it has been a family business for a minimum of two generations. These Financial Agents stated to be registered or claimed to be in the process of being registered with the Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”), as Money Services Businesses (“MSB”).

#### **4.4. Registration:**

All Financial Agents were aware of FINTRAC. Some Financial Agents mentioned receiving a ‘compliance questionnaire’ from FINTRAC which they completed and mailed back. After this process, they considered themselves ‘registered’ as Money Service Businesses (“MSB’s”). Some mentioned receiving a ‘deficiency report’ from FINTRAC. And these Financial Agents considered themselves ‘registered’ after curing / fixing the deficiency as stated in the report.

Most Financial Agents viewed FINTRAC reporting as an ‘honour system’ encompassing self-

regulation (i.e., they voluntarily subject themselves to regulation). They considered the process complete upon registration. None of the Financial Agents were clear about the ongoing legal obligations attached to being 'registered', with the exception of the Financial Agents that are licensed in the United States by Financial Crimes Enforcement Network ("FinCEN") or do business with licensed MSB's in the United States. Record keeping was the only requirement to which they conformed; however, the duration and details of record keeping were not clear. Neither were they clear about any other obligations regarding filings, such as change of ownership, Suspicious Transaction Report ("STR"), Electronic Funds Transfer report ("EFT"), Large Transaction Report ("LTR"), or any ongoing compliance requirements. None mention being subjected to any mechanisms to confirm compliance regarding business activities such as audits, request for information or regular periodic filings with FINTRAC or any other governmental organization such as the Office of the Superintendent of Financial Institution ("OSFI"), etc.

It is important to note that the Financial Agents who are 'registered' were more approachable and informative about their businesses and trends versus those who were not 'registered'. In fact, nearly all unregistered Financial Agents claimed not being in business, doing extremely limited business, being in the process of registration, or they declined being interviewed. Of all the interviewed Financial Agents (registered and unregistered), none had filed a single STR. One Financial Agent had filed LTR and EFT reports with FINTRAC. They claimed to know all their clients or they turn away clients they do not wish to transact for.

Because of registration requirements, the registered Financial Agents mentioned the use of nominees in order to transact. Such transactions are called 'benami' transactions (i.e., third party or other name transactions). It is primarily due to clients being illegal immigrants or 'out of status' in the Source Country. In this process, the actual client use's another individual who is known to the Financial Agent (i.e., an introducer), has transacted business through the Financial Agent before (i.e. has an account with the Financial Agent) and is a legal immigrant in Canada to send funds. These transactions are conducted in the name of the introducer instead of the actual client.

#### **4.5. Record Keeping:**

All registered Financial Agents maintained computer records of transactions and gave receipts of transactions to clients upon request. The information collected by the registered Financial Agents included a form to be filled in and signed before transacting. The form typically requests the following information: date, name of sender, address of sender, phone number, amount (cash, check or deposit), recipients name, address, phone number, service fee and total amount. One version of this form included the exchange rate, while others included specific questions regarding use and origin of funds (for example, "Are you or the Recipient of the funds in any way involved with a Terrorist Organization?" and "To the best of your knowledge and Belief, is the purpose of this transfer or receiver of funds in any way related to a terrorist or illegal operation or means?"). For funds over a thousand dollars some Financial Agents also required photo identification (i.e., typically, a drivers' license) of which they kept a copy.

The unregistered Financial Agents maintained 'ledgers' or 'books' for transactions. These records were typically maintained until settlement was complete. None of the unregistered Financial

Agents mentioned maintaining records for over one year because settlement was usually done within a year. They saw no purpose in keeping records after settlement. These Financial Agents were reluctant to explain their ledgers or books and they just permitted a cursory look. These records included the names of sender and the recipients, phone numbers of the sender and recipients and the amounts. There were no signatures or declarations required of the senders regarding the use or source of funds and at times only the amounts transmitted were recorded.

It is important to understand that these recordings are more for settlement purposes between the interacting Financial Agents and not for completion of transaction purposes or assurance of delivery of funds between the Financial Agent and the clients. As explained by one of the Financial Agents, a request of a receipt (in such cases) is offensive because it would doubt the credibility of the Financial Agent. Clients interviewed at these locations seemed uninterested in a receipt even if one was available.

Although the Financial Agents were willing to discuss their methods of doing business, they were vague in terms of giving a number of the amount of funds they transferred in any given month. Ranges were mentioned, for example: “anything from half a million to three quarters” or “up to two hundred thousand” or “any amount”. Therefore, it is extremely difficult to make any determinations regarding the actual amounts of funds that are transferred in or out of Canada by Financial Agents. It is interesting that clients did not have the same apprehension as Financial Agents while discussing this business in general (reasons for using the system versus using banks), however most clients were uncomfortable while discussing their immigration status in Canada.

#### **4.6. *Advertising:***

Pre 9/11 most of the Financial Agents advertised in ethnic news papers, ethnic directories or the internet. However, post 9/11 there has been a trend to scale back advertising. Only the Financial Agents that consider themselves registered with FINTRAC advertise. And these Financial Agents advertised as being registered. The transfer of funds is an important if not a primary business for those that have registered since the service brings in additional revenue.

The unregistered Financial Agents do not advertise but are known in the community. Reputation and respect is the method of getting clients. These Financial Agents do not consider the transfer of funds a primary business.

#### **4.7. *Bank Involvement:***

Banks or financial institutions (such as Western Union, Money Dart or Money Mart) are usually involved in some part of the transaction for accounts not settled by reciprocal (or reverse) transactions. The role they play is integral to the process. Their involvement can either be direct (i.e., a front-end involvement) or a deferred / back-end involvement that is unconnected to the previous transaction.

For registered MSB's and Financial Agents, these institutions are usually directly involved (i.e., settlements are done via wire transfers). The Financial Agents that transact through trade usually elicit institutional involvement that is typically back-ended (i.e., letters of credit or other trade transactions) and unconnected to the previous transaction(s).

It is important to clarify that banks may not be used at all if the settlements can be done by reverse transactions, which often is the case. When transaction amounts are small and the travel is frequent, banks or other institutions are not used at all. Reverse transactions through immigration or travel are usually adequate to settle accounts. Almost all of the unregistered Financial Agents prefer to use the reverse settlement process because of its obvious convenience, the lack of banking facilities or due of the remote destinations served.

#### **4.8. *Fees / Flow of Funds:***

The fees charged for executing transactions by the Financial Agents vary and depend on a number of factors. National economic and security driven policies/regulations seemingly affect the amount of fees charged. Fees for funds flowing *from* the Source Countries *into* the Recipient Countries differed in the three communities.

Also, the fees charged for funds flowing *into* the recipient countries differed from fees charged for funds flowing *from* the recipient countries (regardless of the destination, not limited to the Source Countries).

#### **4.9. *Education/ Language Skills:***

The primary language of the Financial Agents was not English but the language of the country of origin. For example, in the Afghani community the primary language used is Pashto or Dari. In the Pakistani community the primary language used is Punjabi or Urdu. In the Indian community it is Hindi, Punjabi or Gujarati. The level of education compared to the clients is higher (i.e., the Financial Agents are more educated than clients). And the Indian Financial Agents are the most educated of all interviewed. They typically had an undergraduate or higher degree.

### **5. COMMUNITY SPECIFIC ANALYSIS:**

#### ***AFGHANI FINANCIAL AGENTS:***

Total number approached: 12.

Number interviewed: 11.

Declined: 1

Registered: 2

Unregistered: 9

#### **5.1. *Destination:***

Funds are transferred in Afghanistan to Kabul, Herat, Mazar-i- Sharif and Kandahar. In Pakistan (by Afghani Financial Agents), funds are transferred mainly to Peshawar where the Afghani's immigrated during the Taliban regime. But currently due to the reverse immigration of the Afghani's back to Afghanistan (Kabul mainly), not many Financial Agents send funds to Peshawar.

#### **5.2. *Primary Business and Registration:***

The transfer of funds was not the primary business for *any* of the interviewed Financial Agents. And of the 11 Afghani Financial Agents interviewed, 2 were registered with FINTRAC.

### **5.3. Record Keeping:**

The registered Financial Agents due to registration requirements keep detailed computer records of transactions. The registered Financial Agents transacting through trade also keep detailed records (i.e., initial records from the clients of information of senders and recipients, amount, date, currency, etc, and details of the subsequent settlement between the Financial Agents of wire transfers or trade records). Their sub-agents also keep similar detailed records. However, the unregistered or small operators transacting on trust, do not keep detailed records. Settlements by the unregistered Financial Agents are done primarily by reverse transactions and are based on immigration or travel. Residual settlements by the unregistered Financial Agents, if not done by reverse transaction within a specific time, are done through banks in Pakistan or thru Western Union in Afghanistan.

### **5.4. Fees/Flow of Funds:**

The Afghani Financial Agents charge either fixed fees for small amounts (\$10 below \$300) or charge 2% maximum, for funds flowing into Afghanistan and Pakistan. It is important to note that transactions can be executed in United States currency (i.e., dispensing to recipients in Afghanistan), if requested. For these transactions, there is a nominal increase in the fees charged. Even if Canadian dollars are given by a sender in Canada, a request for dispensing in US dollars can be made. The Afghani currency (called “Afghani”), or the US currency is the *only* medium of currency transfer. Canadian dollars are not dispensed, regardless of the fee involved. The wide circulation of the US currency makes this possible.

The Afghani Financial Agents cater to a wide client base. Certain Financial Agents have sub-agents working for them for a commission (for example, one Financial Agent had nine sub-agents employed in different parts of Canada and the United States and some smaller Financial Agents had two to four sub-agents employed). The fee is split between the agents. The sub-agent typically gets half a percent of the fees charged (i.e., .05%) and the employer Financial Agent keeps the difference. However, there were a few instances mentioned wherein the fee was split equally between the sub-agent and the main Financial Agent beyond a particular amount of funds bought by the sub-agent (i.e., a 50-50 fee split). The reason explained by the employer was to provide an incentive to the sub-agent to bring in more business.

Primarily the flow of funds was one way into Afghanistan. There was no mention of any incident regarding funds flowing out of Afghanistan with the exception of certain goods (such as, dry fruits and carpets), in trade transactions.

### **5.5. Bank Involvement:**

Banks or financial institutions play a role in most transactions if settlements are not done through reverse transactions. The role can be a main role (i.e., front ended in wire transfers) or an un-connected, subsequent transaction (i.e., back-ended in trade transactions). Their availability, even though limited and distant, assists in executing or settling transactions. For example, Western Union is used in some cases involving remote parts of Afghanistan or Money Mart for remote parts in Pakistan.

Post 9/11, some banks are shutting down the Financial Agents accounts because of what is deemed to be suspicious account activity—and in most cases without giving any reason. This has compelled the Financial Agents, registered and unregistered, to transact purely on trust or through third party businesses that have not been shut down / refused by the banks, for settlement. These third party businesses often belong to other ethnic cultures and are unconnected to the Afghani community. The Afghani Financial Agents claimed not knowing the reason for banks permitting these third party businesses to execute the very same transactions that were refused to them by the banks because the funds are destined to the same jurisdictions, are for similar amounts and have the same frequency. But the other businesses are still ‘in business’ while the Afghani Financial Agents accounts have been closed by some banks.

This third party transacting poses a serious risk to business. As complained by the registered Financial Agents, the risk of funds getting lost because there is limited or no accountability by the third party. Other problems encountered are delayed delivery or settlement (i.e., at times it takes up to 10 days to dispense or settle accounts), opaqueness of the third party infra-structure (i.e., the Afghani Financial Agents do not know the third party trust or bank network). Cumulatively, all these reasons make transactions risky and it is bad for business.

The inconsistent acts of banks have resulted in the Financial Agents going ‘bank shopping’. Since some banks are more ‘accommodating’ than others, they have ‘flown like a flock’ to those banks and moved on to other banks/institutions when their accounts have been shut down by the previous ones. An effect of ‘bank shopping’ or relying on third parties is that the small independent operators have loosely associated themselves with larger entities in their community. These small operators assume that the larger entities are registered, have not been shut down by the banks and that they can ensure transaction completion. However, this is not a solution because the registered Financial Agents are facing the same problem and carrying the risk forward by going to third parties. These facts apply to those transactions wherein the banks involvement is front-ended and direct.

Furthermore, transacting purely on trust for small operators has additional serious limitations. These limitations include a disproportionate, one way flow-of-funds (i.e., of remittances, into Afghanistan), a limited number of clients and settlement that is dependent on travel and immigration. And this has resulted in driving a lot of small independent Financial Agents out of business or affiliating themselves with larger entities.

#### ***5.6. Advertising and Affiliations:***

There has been a decrease in advertising in ethnic newspapers, directories or the internet by all Financial Agents. Currently, only the registered Financial Agents advertise. The reason for scaling back or not advertising at all, as explained by the unregistered Financial Agents is because meeting client needs is difficult given the increased scrutiny and the unwillingness of the banks to participate.

#### ***5.7. Competition / Collaboration***

There is high competition between Financial Agents in the community. Originally before 9/11, there were several independent operators and all of them were unregistered. After 9/11, due to



registration or due to the banks actions, they have developed associations / affiliations or become more 'organized'. Most of the small independent operators have loosely affiliated themselves as sub-agents with larger Financial Agents or with registered Money Service Businesses. This transactional association is sporadic for transactions that are too large to be managed on their own and require the assistance of a larger, more organized entity. However, minor or small transactions are 'taken care of' by the small independent operators, themselves. These affiliations have further fueled competition between the larger Financial Agents.

Cross ethnic collaboration was observed in this community. As mentioned previously, the Financial Agents are compelled to transact through third parties. These third parties are not of the same origin and often do not share the same culture (for example, Afghani Financial Agents transacting through Yonge Streets 'Eurasian' Financial Agents). Such collaborations are compelled due to business problems faced by the Financial Agents. They not based on trust. Infact, there is a noticeable level of dis-trust evident in these associations.

Also, an element of collaboration and cooperation was observed between the Afghani community and the Indian community. These associations are based on trust. For example, Afghani Financial Agents have Indian clients for funds destined for Afghanistan. And Afghani Financial Agents transacting through trade, have a high level of comfort in dealing with Indian community. This collaboration / cooperation was unique because it did not extend to the Pakistani community (i.e., the Pakistani community was observed to transact or limit themselves to their own community only). Infact there was a visible level of animosity noted against the Pakistani community. This was notable because of the high level of immigration between Afghanistan and Pakistan it was assumed that the two communities would share a level of trust. However, the Afghani Financial Agents and Indian Financial Agents mentioned not doing any business, for or with the Pakistani community.

### **5.8 Transaction Process:**

The primary method of transacting by the Afghani Financial Agents is trade through a third country that provides goods. Due to various reasons such as lack of banking structure, an extremely limited presence of financial institutions, in addition to the political and economic uncertainty, a direct transfer of funds into Afghanistan is not the preferred choice.

In the following two illustrations a distinction is made between Financial Agents that use banks at the back-end (Illustration I), and those that use banks at the front-end for executing transactions (Illustration II).

**Illustration 1:** Phase I: Dispensation to Clients. Phase II: Settlement between the Financial Agents.

#### **PHASE I: Dispensation to Clients:**

Typically, a sender client approaches a Financial Agent to send funds to a recipient in Afghanistan or Pakistan. It should be noted that the client base is wide and the client can be from any state in Canada or the United States.

In addition to the funds (which can be in either United States or Canadian dollars), the client gives details of the recipient. The registered Financial Agents at this point of time take written details of the sender client and have a detailed form filled regarding identity of sender, recipient, exchange rate and use / mis-use or origin of funds (such as, for illegal or terrorism purposes). Certain also make photocopies of identity documents. Sub-agents of the Financial Agents also conform to the same process. The unregistered take contact information and funds but no forms or disclaimers are signed off by the client.

The client states currency preference (i.e., United States dollars or Afghani) and / or a home delivery (often connected to social customs or convenience). No extra fee is charged for home delivery.

In return, the Client is given contact information and time of delivery to the recipient. In addition, the Client is given an identifying symbol (can be a number or name). The funds to be dispensed are determined according to the exchange rate (at times the rate is used as the identifying symbol).

The Canadian Financial Agent contacts the Afghani Financial Agent (in Afghanistan) and forwards the required information (of recipient, amount, etc). The Afghani Financial Agent in turn dispenses funds to the recipient within 24 to 48 hours of receiving instructions.

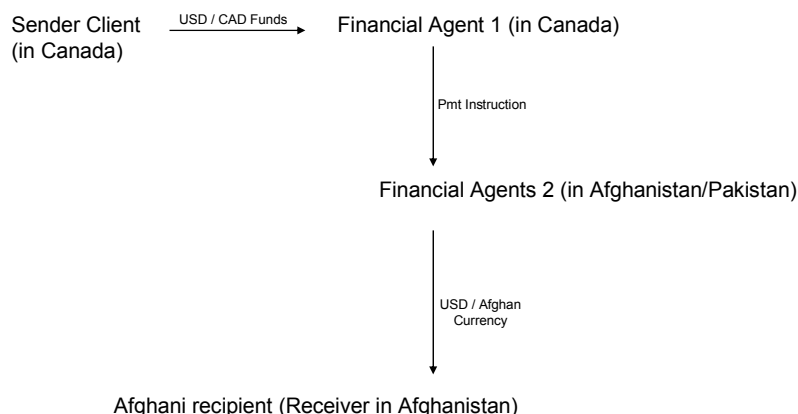
The Canadian Financial Agent receives a confirmation from the Afghani Financial Agent of the executed transaction and passes the confirmation on to the sender client.

The confirmation concludes Phase I of the transaction.

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### Transaction: Phase 1.



NOTE: Dispensation to Client is within 24 – 48 hrs of delivery to Financial Agent in Canada by the Sender.  
Delivery to recipient in the destination jurisdiction can be in Afghani or US currency.  
In addition, the delivery can be made to the home to the recipient client without any additional fees.

## **PHASE II: Settlement between the Financial Agents.**

Settlement varies in terms of time and accounts are settled through trade between Financial Agents.

Typically, a Financial Agent in Afghanistan contacts his associated Financial Agent in Canada and places an order for goods to be imported into Afghanistan. Often, the Financial Agent in Afghanistan is the business person placing the order; however, at times another business individual could be the person placing the order with the Financial Agent in Afghanistan. The amount of funds involved in the order roughly equals the balance due from the Canadian Financial Agent (or equals the amount of funds previously dispensed by the Afghani Financial Agent to recipients in Afghanistan).

The Canadian Financial Agent sources the goods. The sourcing of goods can be from any jurisdiction. For example, goods have been sourced from China (e.g., electronics), Kenya (e.g., tea), India (e.g., fabric), Pakistan (e.g., dry fruit), etc.

A letter of credit is opened in the name of the third party or a wire transfer is made to the third party provider by the Canadian Financial Agent.

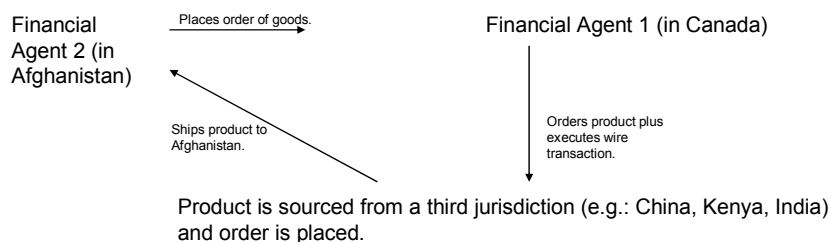
The goods are shipped to the recipient Afghani Financial Agent by the third party provider. The Afghani Financial Agent receives the goods and settles accounts (if he is the business person placing the order), or forwards it to the business client and accounts are settled between the two Financial Agents.

This concludes the transaction.

The process works efficiently, meeting every parties needs. The third party provider (regardless of jurisdiction), has a higher level of comfort in dealing with a Canadian entity instead of dealing with an Afghani entity. And the requirements of the two Financial Agents are met.

It should be noted that such settlements can be differed up to a year, if required. Though certain Financial Agents prefer not to differ it beyond a year due to difficulty in managing accounts, all did not mention the same problem. And for these few, it is essential because the flow of funds *into* Afghanistan is not adequate to execute trade transactions.

Transaction: Phase 2 Settlement between Financial Agents.



NOTE: Financial Agent in Canada sources product from third country.  
Order for product is placed and wire transaction is done for the product.  
The product is shipped to Afghanistan.

**Afghani Illustration II:**

(Note: In this illustration, the bank or non-bank financial institution's involvement is front-ended and direct.)

**PHASE I: Dispensation to Clients**

A Client contacts a Canadian Financial Agent and obtains Financial Agents bank account details. The client gives all the details as mentioned in the previous illustration regarding sender details, recipient details, currency preference, amount and home delivery preference.

The Client deposits funds in the Financial Agents account and confirms the deposit with the Financial Agent.

The Canadian Financial Agent contacts the associate Afghani Financial Agent in Afghanistan and passes on the details of the funds and recipient. The Afghani Financial Agent dispenses the funds to the recipient in Afghanistan.

The Afghani Financial Agent then confirms completion of transaction with the Canadian Financial Agent. At this stage, the Canadian Financial Agent may or may not further re-confirm the delivery of funds to the recipient to the sender Client in Canada.

Often (due to the level of trust involved), delivery to the recipient is *assumed* complete within 24 to 48 hours of deposit of funds into the Canadian Financial Agents account. The sender-client takes it for granted that the funds will be delivered to the recipient within the time limit stated and no re-confirmation by the Financial Agent is necessary. This assumption (or the high level of trust) in the Financial Agent also applies to the previous illustration. Only in the even of a

problem (such as, a time delay, or lack of availability of requested currency, etc) the Canadian Financial Agent contacts the sender client regarding the delay. Also, at times, both the clients (i.e., sender and the recipient) communicate and confirm delivery. The confirmation can be done by phone, fax or e-mail.

## **PHASE II: Settlement between Financial Agents**

The Canadian Financial Agent typically consolidates funds from Clients over a week (however the accumulation of funds can extend up to 2 or more weeks if amounts involved are minimal).

The Canadian Financial Agent wires the funds into a different bank account in his own name or to a different Financial Agent in another jurisdiction. As mentioned during the interviews, pre 9/11 the United States was the jurisdiction of preference. Currently, the jurisdiction of preference for funds in-transit was mentioned as Germany or the United Kingdom. (Note: during the interviews it was explained that breaking up of the transaction into a ‘few’ segments (or among a ‘few’ Financial Agents) is normal practice. However, for clarity a direct transfer involving just three Financial Agents is illustrated herein)

The second Financial Agent (in the transit country) wires the funds to a financial institution or bank in Pakistan, to a third Financial Agent. Or wires it directly through Western Union into Afghanistan (but this is problematic because of the limited presence of Western Union in Afghanistan).

From Pakistan various options can be exercised. Typically, physical currency can be carried to the Afghani Financial Agent or a simple trust based transaction can be carried out between the two local Financial Agents (i.e., in Pakistan and Afghanistan) to settle accounts. Due to easy access and frequent travel across borders (between the two jurisdictions), movement of physical currency or reverse settlement is done with ease and not viewed with the same apprehension as the first segment of the transaction.

Direct settlement used to be done between the Canadian Financial Agent and the Afghani Financial Agent (i.e., thru banks in Pakistan). However, experience has illustrated that the level of scrutiny for funds *directly* destined for Pakistan is higher than for funds destined to any country in the European Union. Therefore it is better for the Financial Agents to break the transaction into parts (i.e., layering of funds), rather than a direct transfer to Pakistan.

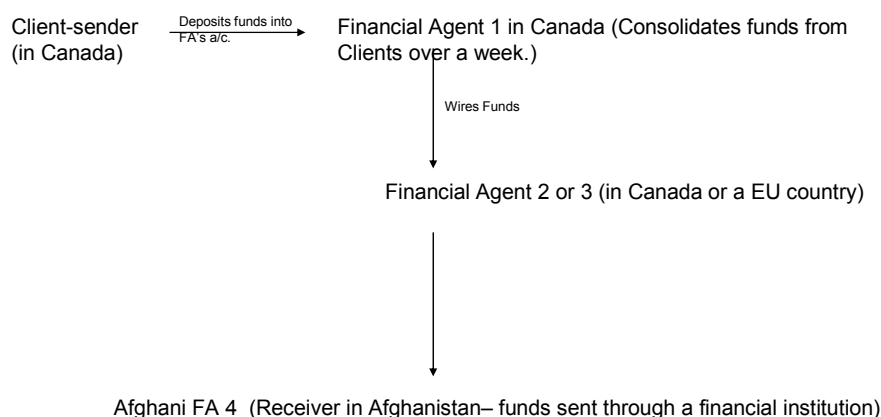
This concludes the transaction. It should be noted that transactions such as this illustration are on the decline due to the banks not ‘cooperating’ for executing transactions. It is equally important to note that the bank approach is not uniform (i.e., most not all, are declining the Financial Agents business). It was assumed that the banks are shutting down accounts that have rapid / frequent transactions, destined to locations of concern, have no purpose as explainable or have Muslim sounding last names. Being registered with FINTRAC is not much of an advantage. However, private account transactions thru a European country can still be executed, if done cautiously. Even though these transactions involve more associates for final settlement, it seemingly is not a problem because all the individuals involved are family members. The distinct advantage of using the banks or a financial institution is that settlement does not have to be deferred and it is

fast and easy. Neither is this process as cumbersome as trade settlements.

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**Illustration 2: Settlement between FA's**



NOTE: Dispensation to Client is within 24 – 48 hrs to delivery to Financial Agent in Canada by the sender. Delivery to recipient in the destination jurisdiction can be in Afghani or US currency. A 'few' Financial Agents are involved in final settlement (for funds-in-transit), if settlement is not done through a reverse or trade process.

## 6. PAKISTANI FINANCIAL AGENTS:

(NOTE: Due to frequent occurrences of participant reluctance, contradictory statements during interviews and clarification requests that resulted in avoidance of further discussion or denial of previous statements, further research is recommended to validate these findings / trends.)

Total approached: 16

Interviewed: 7

Declined: 9

Registered: 3

Unregistered: 4

### 6.1. *Primary Business and Registration:*

The transfer of funds was the primary (and only) financial service offered by three Pakistani Financial Agents. These three were registered with FINTRAC as MSB's. For the others (i.e., the unregistered Financial Agents), money transfer is not a primary business, it is merely an ancillary service to their main business.

The unregistered clearly stated not being in active business or being 'associated' with registered Financial Agents (i.e., as sub-agents hence conform to the registration requirement through the principal Financial Agent), or are in the process of registration. However, there was a concern that registration requirements may subject them to unnecessary governmental attention. There was also a concern regarding the costs involved for the registration process. Since these Financial Agents do not consider the transfer of funds a primary business (i.e., it is infrequent, limited,

sporadic and small amounts mainly done for close family and friends), they have reverted back to concentrating on their primary business as a main source of income.

### **6.2. Destination:**

Limited and past transactions, executed by the unregistered Financial Agents were localized to different parts of Pakistan (such as, to parts of Karachi, Rawalpindi, Islamabad, Lahore, Quetta, Sindh, and Multan, etc). Whereas, the registered Financial Agents transfer funds ‘to all’ jurisdictions. There was a distinct reluctance in the community to do business with the United States.

### **6.3. Record Keeping:**

The registered Financial Agents maintain detailed computer records. Interestingly, one registered Financial Agent maintained ledgers and transferred the information periodically on to the computer. The reason explained was habit. When questioned about the possibility of errors in the transition (from the ledger to the computer), the response was that, ‘there is no possibility of any mistake’. The unregistered maintained ledgers or books, no form filling or declarations are required.

The use of nominees is frequent. An incident was witnessed that highlighted the frequency. A sub-agent bought three thousand dollars from a ‘few’ clients. The Financial Agent took details of the recipients only (not of the sender-clients). When questioned about this transfer, the registered Financial Agent responded that this transaction would be documented in the name of the sub-agent. He claimed to have absolute trust in the sub-agent and that the sub-agent knew everyone of the clients the registered Agent had ever transacted for.

The primary reason given for recording/executing transactions in the name of the sub-agent was that no identity documents are required for transactions below a thousand dollars. Clubbing of funds in one account is considered efficient because amounts, often, are small. And the use of nominees is further important because of immigration issues of the clients.

Receipts are given upon request by the registered Financial Agents (not procedure). However the same request would be considered offensive, if made to an unregistered Financial Agent. As mentioned earlier in a slightly different context, these transactions have a religious undertones (for example, the business is started and concluded with religious greetings, the wall hangings and computer screen savers have religious inscriptions (i.e., writings and signs), business is stopped at specific hours for prayers, there is no service fee (i.e., profit) in transactions due to religious considerations, etc. These transactions are re-enforced with religion, not just trust, kinship or economic gain). Thus, it is trust *and* religion which governs these relationships. And a request for a receipt, given these factors would be considered offensive.

It was specifically asked if any Financial Agent had stolen funds or not executed a transaction in the community. And the response was negative (unlike the Indian community). The explanation given was that the code of conduct is regulated by religion, and such ‘act is unthinkable’.

#### **6.4. *Advertising / Affiliations:***

Post 9/11, only the registered Financial Agents advertise in the community news papers. This is due to various reasons. The primary reason is that money transfer is not an active business for the unregistered. Those that consider it an important (but not a primary business), have affiliated themselves with registered Financial Agents and these registered agents advertise as Money Service Businesses.

Some of the factors that have facilitated the affiliation include but are not limited to: 9/11 responses by the governments, banking conditions, investment opportunities in the United Arab Emirates and regulation or market conditions in Pakistan.

The regulation or market conditions in Pakistan was the most quoted reason for the affiliations. Post 9/11, the Pakistani government actively enforced regulations against trust based transactions. It further passed laws for registration and granted licenses to transact money services business in Pakistan. Seven large companies have registered as Money Service Businesses. All funds/ transactions (in and out of Pakistan), are required to be routed through one of these licensed companies.

Since Pakistan is a cash economy, small amounts of funds may not be visible. However, larger amounts and if used for investment purposes may raise questions or draw governmental attention. Hence the recipients preference (for transactions to be routed through licensed entities in Pakistan), has resulted to a great extent in Canadian alignments. Most Canadian operators have affiliated themselves with organizations that have relationships with one of the several licensed companies in Pakistan. It was further explained that the licensed entities in Pakistan deal with registered entities in other jurisdictions. Therefore, most (if not all), small independent Financial Agents have affiliated themselves with registered Money Service Businesses in Canada.

#### **6.5 *Competition / Collaboration:***

There is a mild competition between Financial Agents (not fierce, as observed in the Afghani or Indian community). A distinct element of respect was noted when individual Financial Agents discussed the established, larger Financial Agents. It seemed almost as though they co-existed peacefully. There was an absence of animosity against the larger entities. Being driven out of business, due to any reason was 'Gods Will'. This rationale also applied to associations with larger entities.

No cross ethnic collaboration was evident or observed in this community. The Pakistani Financial Agents clientele is predominantly Pakistani. The clients interviewed in this community claimed to trust only Pakistani Financial Agents.

#### **6.6. *Fees:***

Concerning past transactions, the unregistered Financial Agents did not charge a fee due to religious considerations. They profited from the exchange rate differences (i.e., the spread). The registered Financial Agents charge the clients the financial institutions service fee charged to them for executing transactions (i.e., pass on the service fee as charged by the bank or financial institutions such as Western Union or Money Mart) but do not charge any additions fees. The only exception observed was a registered Financial Agent that charged a percent over the



financial firm service fee.

The unregistered Financial Agents were distinctly reluctant to discuss past transactions executed in the United States (for example, the interviewer asked some of the following questions: who did you transact with? were those Financial Agents also unregistered? what were the amounts involved?) or they claimed not having done any business of sending funds *to* the United States (which is distinct from sending funds *from* the United States to Pakistan).

The few that discussed past dealings explained that for funds destined *to* the United States a fee was charged post 9/11, although no fee was charged for any other destination. The fee charged was not revealed. However, a fee was attached to these transactions. Even the registered Financial Agents charged an additional amount to transmit funds *to* the United States post 9/11. For example, a registered Financial Agent explained, ‘\$97 is charged for sending \$1,500 to the US versus \$19 for the same amount to any part of Pakistan’.

Typically, delivery of funds to recipients is within 24 to 48 hours. To the United States however, this time frame would vary with the unregistered Financial Agents. Past, sporadic and limited business (after 9/11), took up to 3 to 5 business days to complete (i.e., dispensing to funds to the recipients). The delay could imply that funds were not available for dispensing or that a banking institution was involved in the transaction and funds were channeled through it (i.e., wire transfers can take up to 3 business days). When questioned further about this assumption, the response was that conducting business was extremely difficult and most past associations were dis-functional due to fear or and the discriminatory spotlight on the community. Or if they are in the business, they have undertaken registration. This means that the clients have to be disclosed which is problematic given the immigration status of the majority of the clients. And since settlement was / is problematic most abstain from transacting with the United States.

Settlement with the United States poses serious challenges. Pre 9/11 settlements were a question of travel across borders or a simple wire transfer. However, post 9/11 due to increasing banking and immigration regulations, settlements are risky. To convention methods of settlement (i.e., physical exchange of currency across borders), are attached addition hazards of border declaration of amounts and finger printing processes. These hazards serve as a serious deterrent. Therefore, majority of the unregistered Financial Agents claimed to abstain from transacting with the United States.

#### **6.7. *Flow of Funds:***

The flow of funds was stated to be one way (i.e., into Pakistan of remittances). Most of the Pakistani Financial Agents claimed to do very limited business regarding the flow of funds from Pakistan. A trend noted was the increase of flows *into* Pakistan post 9/11.

According to certain Financial Agents, a lot of clients in the West (i.e., from the United States, United Kingdom and Canada), liquidated their investments / assets and transferred the funds back to Pakistan few months following the events of 9/11. However, they were not clear in responding to questions as to whether these clients had returned to their country of origin or had they merely liquidated their assets and transferred them? Neither is there any method to determine whether all assets or just part assets were transferred. But clearly a blend of fear, banking regulations and

domestic regulation / policies (in the United States and Pakistan), facilitated an increase in business to the advantage of the Financial Agents post 9/11.

Some of these transactions were reportedly executed through Canada (instead of direct transfers from the United States to Pakistan). Seemingly, due to fear or regulations flow of funds out of United States *directly* to Pakistan had decreased. Instead funds were *first* transferred to Canada and *subsequently* transferred to Pakistan (i.e., United States-Canada-Pakistan). Again, the respondents did not mention any transaction amounts.

Another factor that assisted in the process was the investment opportunity in Dubai. This investment opportunity was mentioned by the Financial Agents that have established relationships in the United Arab Emirates. Apparently within the past two years the Government of United Arab Emirates has permitted non-residents to purchase 99 year land leases. It was explained that Pakistanis now consider Dubai a safer investment compared to the West. Therefore, when funds flow back they are destined for investment purposes in Dubai and are not for use in Pakistan *per se*. Furthermore, the Pakistani Financial Agents that have relationships in the United Arab Emirates preferred a direct transfer of funds to that jurisdiction instead of using Pakistan as a flow-through because of national economic policies that attempt to regulate the flow of funds into Pakistan. It was concluded that regardless of the reason, regulations and fear that followed 9/11 proved to be financially beneficial for some Financial Agents while other had mixed responses.

#### **6.8 *Affects of 9/11:***

There were mixed responses to the affect of 9/11 on business. For some 9/11 and the following regulations in the United States facilitated a substantial increase in business. Few claimed not to be affected at all (they were relatively new in business). These Financial Agents viewed the rapid increase in the presence of Western Union/ Money Mart in Pakistan and domestic policies in Pakistan more wearily than they viewed the affects of 9/11 on business. Few claimed not to be in active business any longer, while others re-aligned business practices, (i.e., amended practices by not doing business with the United States, increased the fees charged for the transactions or affiliated themselves with registered Financial Agents). All interviewed regardless of the shifts in business practices, were apprehensive while discussing business with the United States. They were also anxious about future policies that the Canadian government may undertake which would regulate business practices.

#### **6.9. *Transaction Process:***

For registered Financial Agents bank involvement is front-ended. The Canadian Financial Agent receives funds and information from the client. The client base is wide and includes the United States and Canada. Upon receiving funds, the Financial Agent deposits them into his account. A direct inter-bank or financial institution transfer (i.e., Western Union or Money Mart) is executed into the recipient's account in Pakistan or to an associated Financial Agent in Pakistan (who then dispenses the funds to the recipient). This concludes the transaction.

All registered Financial Agents have contractual relationships with one of the seven companies that are licensed by the State Bank of Pakistan. All transactions are executed / routed through banking channels to nearly all States in Pakistan. And most of these Financial Agents have relationships in Canada, the United States, United Arab Emirates, United Kingdom and parts of

Europe (i.e., “everywhere”).

The unregistered Financial Agents used to transact purely on trust. As stated previously for these Financial Agents money transfer was not a primary business. It was an ancillary service to the main business, done for family and close friends and was localized to parts of Pakistan. These transactions were based on personal relationships and settlement of accounts could be deferred up to a year. Settlement was done primarily by reverse transactions and was based on travel of individuals from Pakistan to the United States or Canada. This essentially required a client of the Pakistani Financial Agent to travel (or be in) Canada or the United States. The amount owed by the Canadian Financial Agent was given to the Pakistani Financial Agents client in Canada. (This was the same, but an opposite request as made by a Canadian Financial Agent for dispensing of funds on the behalf of a Canadian client, to a Pakistani recipient in Pakistan – it is a reverse transaction.)

Interesting, none mentioned the layering process (as the Afghani Financial Agents) for settlement. This is interesting because of the larger presence of Western Union and banks in Pakistan when compared to Afghanistan. None of the Financial Agents claimed to use any country (for example, Europe as the Afghani Financial Agents) as a mid-jurisdiction to transfer funds. All unregistered Financial Agents claimed that they ‘were no longer in business,’ or did extremely limited business for family only.

The unregistered Financial Agents conducted transactions in Pakistani currency (i.e., Rupees) and United States currency (i.e., of dispensing in Pakistan). The registered Financial Agents conduct transactions in Rupees only. None were willing to undertake a transaction of dispensing United States currency in Pakistan even if requested, regardless of the fee charged.

## **7. INDIAN FINANCIAL AGENTS:**

Approached: 10

Interviewed: 8

Registered: 5

Unregistered: 3

Declined: 2

This community has an additional classification: Business individuals.

Approached: 7

Interviewed: 4

Declined: 3

NOTE: As stated previously, terms such as ‘Hawala’, ‘kala or garam paisa’, ‘edihar ka udhar’ were used by some participants during interviews although the interviewer consciously refrained from using any due to the negative connotations attached to them. However, these terms are relevant in the fees charged context. Infact there was a distinction made between ‘white’ hawala (‘safed’ or ‘eik’ number – i.e., white money funds) that refers to the remittances flowing *into* India, even though these may be earned by individuals that do not have legal status in the country

where the funds are earned (i.e., illegal immigrant's remittances) and 'black' hawala (or 'do numbri', 'kala' or 'garam' paisa). This refers to funds flowing *out of* India and were mentioned (in some case), to be tax evasion ('garam' or 'hot') or 'black money' funds. It is clarified that black hawala was referred to and explained exclusively by the business individuals.

The additional classification in the Indian community is of 'business individuals'. The transactions were explained as mis-invoicing (i.e., over or under) and duty draw backs in trade transactions. Although methods used for transacting were noted to be similar to those used by Afghani Financial Agents (i.e., through trade), however, this community was still distinct (hence a separate classification).

The client base is limited. They cater to themselves and have limited business associates. None advertise or hold themselves out as Financial Agents and never have in the past. None are immigrants or citizens of Canada. All have multi-jurisdictional business dealings. All have 'business interest', 'second homes' in Canada or the United States and/or their children are enrolled in an educational institute in the West ('over-seas'). It is for the purposes of understanding the flow-of-funds into Canada that this group is essential to the research.

Furthermore, this group of individuals was the most reluctant to discuss business dealings. Confidentiality was assured frequently (in fact, this was the only group that the interviewer had to give all the documents regarding call of papers, the response document, ethics reviews form and approval (reflecting confidentiality), before the interviews. The interviewer's family background, qualifications, language skills, knowledge of community, social standing or connections did not provide adequate comfort (as it did it for the other interviews)). Introductions to these individuals were conducted in a social setting (not work, as the others were) although follow up conversations were in work places or by phone. It should also be clarified (as required by this group), that any and all information given to the interviewer relates to industry practices undertaken by 'other people' (i.e., not themselves). Lastly, this group was the best educated and established of all interviewed.

None of the following sub-sections are applicable to this group of individuals with the exception of analysis of fees, flow of funds and the transactions process.

### **7.1. Destination:**

The registered Financial Agents transact 'with all' jurisdictions that have a bank or financial firm presence. The unregistered Financial Agents transact primarily to India (i.e., in-flow of remittances). However, these transfers are not to specific locations (as with the Pakistani Financial Agents), they are much wider. It was explained that in India, Western Union has developed a business relationship with the postal authority; hence, wherever there is a postal office, Western Union has a presence. This has made transacting (i.e., the final settlement, if not done by reverse process), easy for the Financial Agents.

Interestingly, none of the Financial Agents (registered or unregistered), mentioned any problems in dealing with banks or financial firms. Even the unregistered transact through financial institutions. When questioned as to why the clients do not conduct transactions directly through an institution (instead of transacting through the Financial Agent), various advantages were

stated. These included the low cost of transacting, efficiency (i.e., no time delay), immigration status, level of education or the home delivery service (i.e., pick-up and drop-off) as provided by the Financial Agents and serves as attractions to the clients.

### **7.2. Primary Business and Registration:**

Three Financial Agents consider the transfer of funds a primary business. For the rest (registered and unregistered), it is not a primary business but essential to their main business (additional revenue).

Classification of the registered: three Financial Agents were licensed by the Financial Crimes Enforcement Network in the United States (“FinCEN”), one was licensed by FinCEN and registered with FINTRAC, and one was registered with FINTRAC and transacted business with the United States through a licensed Money Service Business. And three were ‘considering’ undertaking the registration process with FINTRAC (these have been classified as unregistered). The unregistered Financial Agents claimed not doing business with the United States.

Unregistered Financial Agents: responding to questions regarding registration, they explained that certain issues have to be resolved. Some claimed that they had not received a compliance questionnaire (however, one mentioned that an associate Financial Agent in Vancouver B.C. had received a compliance questionnaire a month ago but was not clear about the consequences of the associate complying with the requirements).

Other issues related to the Financial Agents being in business for a ‘few years’, therefore, when would registration take effect (i.e., would registration be retro or current)? What would happen to past transactions? There are questions about compliance costs (i.e., presently, cost of doing business has been minimal, after registration, they will have to comply with requirements / processes which will result in a decrease in profit / business). Also, there is a gray area as to what is expected of them apart from the ‘honour system’ of reporting. It was observed that these Financial Agents did not have the same apprehension as the unregistered Pakistani Financial Agents. They had the same level of confidence and were equally guarded as the Afghani Financial Agents but there was no concerns regarding discrimination or exposure and were willing to discuss problems.

### **7.3. Record Keeping:**

Detailed records are maintained by the registered Financial Agents. As stated previously, the primary method of transacting is through banks or Western Union. Therefore, as per the requirements of the financial firms (that are subject to the governments registration/licensing requirements), record keeping is extensive.

The unregistered also maintain records, however do not have any forms filled out or have any declarations/disclaimers signed. They take detailed information mainly for deliver purposes. Requests for receipts are not considered offensive. In fact, receipts are given as a matter of process by the registered Financial Agents. The unregistered Financial Agents give receipts upon request but the requests are infrequent.

An absence of religion and kinship was observed in this community. It was almost as though the

transactions were executed for the purpose of efficiency (i.e., home delivery within 24 hrs) and economic gain by the Financial Agents. There was also a mention of theft / opportunism wherein an unregistered Financial Agent had stolen funds of Canadian clients, re-located to India and opened a trucking business. Apparently, the Canadian clients have filed law suits against the Financial Agent for recovery of the funds (in the State of Punjab, India). But in such cases, there is little or no recourse available to the clients. And unfortunately the incident of theft did not result in the discontinuation of the process (i.e., clients using banks instead). However, it has resulted in the clients using registered Financial Agents instead (which is safer than using unregistered Financial Agents). Efficiency and a very basic level of trust, governs these relationships.

The use of nominees is frequent. Immigration issues compel clients to seek out others with legal status to fulfill the information requirements. When questioned about these transactions, a registered Financial Agent clarified that the 'out-of-status' clients name is also checked against the Office of Foreign Asset Control list of the United States Treasury (or "OFAC List") before the execution of a transaction although the transaction is executed in the nominee's name.

#### **7.4. Fees / Flow of Funds:**

For funds flowing from Canada or the United States into India (or any recipient jurisdiction), the fee charged is up to 2%. The Financial Agents also profit from exchange rate spread. Local currency is dispensed in India (i.e., Rupees). None of the Financial Agents mentioned dispensing in United States currency (which is interesting considering the presence of a large black market of United States dollars and the easy availability of the currency in the black market for a slightly higher fee than given by the banks). No additional fee is charged for pick-up or home delivery of funds. Neither is an additional fee charged for transactions executed in the United States.

The registered Financial Agents also transact business for clients emigrating *from* India to Canada (i.e., a reverse flow of 'white' funds). The fee charged in these transactions is the same (2%) and documentation is detailed. A registered Financial Agent mentioned that clients use the Agents receipt as proof of funds (reflecting the transfer of funds from India to Canada) to get immigration status stamped upon arrival in Canada.

It is relevant to mention that the Indian economy is primarily cash based. Although credit/debit cards are used, the use is limited or sporadic. In some cases, enforcement of corruption/money laundering laws is rigorous. However, there exists a large black market. And this process of transfer of funds (regardless of origin or color) is integrally tied to cash economies.

In the Indian context, the flow of funds is a two-way flow of funds (i.e., in-coming and out-going). The *in-flow* to India was stated to be of 'white' funds (i.e., remittances, gifts, investments, etc.). *Out-flow* from India in some cases, was explained to be of 'black' funds. The fee charged for these transactions is extremely high because of the risks involved. In these cases the funds are 'washed' (hence converted into 'white') and sent back *to* India to be 'openly used'. The business individuals mentioned that cost of 'converting' the funds into white funds and usable, can be up to 12 % of the principal amount.

### **7.5. Advertising / Affiliations:**

The Financial Agents that consider money transfer a primary business advertise in local ethnic newspapers. It is also noteworthy that the advertisements are not in the English or Hindi language (official languages of India), but are in the local dialects (i.e., in Punjabi and Gujarati) in Canada.

In India the interviewer found no advertisement and all attempts to contact individuals that were known to conduct transfers in the past, were fruitless. Only licensed institutions advertise. Apparently, enforcement against trust based transactions is rigorous. (Note: India has set up a special enforcement unit to 'crack down' on Hawala transactions in 2004).

The registered Financial Agents have a large number of 'locations' (or sub-agents). One mentioned nine locations in Canada and two in the United States. The smaller have two or three. Even the unregistered have sub-agents working for them.

### **7.6. Competition/Collaboration:**

Fierce competition was observed within the community. The sub-agents work for the larger entities for a salary (not a fee split). And they work by choice (not business necessity as with the Afghani community). Few instances were mentioned wherein sub-agents developed a clientele base and 'branched out' on their own, competing with the former employer.

An element of cross ethnic collaboration was also observed. The Financial Agents employ other ethnic community individuals of Indian origin to increase business. For example, a registered Financial Agent employed Indian Muslim sub-agents to increase the Muslim clientele base (for funds destined to India and the United Arab Emirates). However, no collaboration was observed between this community and the Pakistani community. (NOTE: This aspect is different from Muslims of Indian origin versus Muslims of Pakistani origin). The Indian Financial Agents cater to a wide client base. For example, some have Afghani clients (for funds destined to Afghanistan) and Indian Muslim clients. There was no reluctance in transacting for any other community because transactions are executed primarily for economic gain.

### **7.7. Bank Involvement:**

Bank or financial firm's involvement is front-ended and direct in most cases for settlement (i.e., wire transfers). None of the Financial Agents mentioned problems in their dealings with the banks (i.e., shutting of accounts) or undertaking any layering process in executing transactions. Neither was 9/11 mentioned to have a detrimental or positive effect apart from registration, and this was viewed as cumbersome but necessary process.

### **7.8. Transaction process:**

The registered Financial Agents use financial institutions for transactions and settlements. The bank involvement in these cases is front-ended and direct (i.e., wire transfer). For the unregistered, reverse transactions are usually adequate to settle accounts. And for final settlements (not done through reverse transactions), financial institutions are used (i.e., the involvement is direct wire transfers or 'gifts' made to family via banks. It is noteworthy that annual 'gifts' are tax exempt in India and there is no limit for the amount of funds sent to family for certain occasions, such as birthdays or New Years). Hence, settlement is not problematic.

As stated previously, the business individual interviewed cannot be considered Financial Agents in the above stated conventional context. They do not advertise or transact business for clients. They have 'business associates', 'dealings' and 'investments' for themselves. Mostly all transactions are trade based. And detailed documentation or record keeping are integral to business dealings.

Reputation, trust and or fear / threat of lost of wealth underscores these transactions. It ensures that transactions are executed efficiently, to the benefit of all interacting parties. Following are a few methods that 'everyone' in the industry uses:

Mis-invoicing was stated to be a popular method. Due to the black market and/or cash economy, a lot of 'black' funds are accumulated in India. But these funds have limited use (because they cannot be used for investments, large purchases or deposited into bank accounts). To use the funds (i.e., to convert them from unusable 'black', to usable 'white'), trade transactions are undertaken by certain business individuals. Transactions are over-invoiced or under-invoiced.

Over-invoiced: For example, the price of goods exported from India is inflated two or three times. The exporter/business person in India bills his business partner (in the other jurisdiction) for the actual amount of the black funds that require conversion. The partner (upon receiving the product), transmits the funds through legitimate channels, minus the fee for conversion of funds. Often the *actual transfer* of black funds from India to the second jurisdiction (for example, Canada) takes place through the informal process. Thus, the business individual in India successfully converts the 'black' funds into 'white' funds upon receiving the check for the goods shipped from the Canadian entity. These 'white' funds can now be used openly as legitimate investments, business purposes or future transactions. And conversion fees paid for these transactions can be up to 12% of the amount of funds converted.

Under-invoiced: Transactions are under-invoiced in an export transaction from India (i.e., goods are exported at a huge discount). When the goods are sold in the destination country (Canada or the United States), a surplus is created for the benefit of the business individual (in India). This surplus is created because the price at which the product is sold in the destination country is its actual value in addition to a profit, as is normal business practice. The 'quota system' (i.e., fixed amount of licenses issued by governments) assists the exporters considerably in this process. These quotas are often limited (i.e., given to a few exporters only) and for a fixed time. Also, it has the effect of under cutting competition in the market to the benefit of the exporter.

But the actual effect of the practice is that the process results in the business individual (in India) having surplus 'white' funds in another jurisdiction (i.e., the individual having 'holdings' or 'interests' or 'nest eggs' safely away from the domestic governments scrutiny). Real estate investments in Canada, was mentioned as a safe preference for the use of the surplus funds. At times, these funds are sent back to India and used openly as 'white' funds. Or they are used to fund other transactions or to settle accounts for previous transactions. Bulk goods for sale in dollar stores, fabrics, electronics, tea, furniture, etc, were mentioned as examples for these transactions.

Duty draw backs: Tied to these processes intricately are the duty draw back schemes. There is an



exemption of duty (or fee) given by the government for certain items to traders (i.e., exporters, manufacturers, etc) exporting product from India. The Government offers exemption to increase trade, create employment and to increase foreign exchange coming into the country.

Typically, in these transactions, the product is first shipped to a duty-free port such as Dubai or Hong Kong to derive the export duty benefit. Subsequently the same product is shipped to final or actual jurisdiction from the duty free port (i.e., the jurisdiction that placed the order, which can be Canada or the United States). The transactions are *three* times beneficial. The duty is exempt, an additional sum given by the government as an incentive (i.e., the draw back of duty) and all incoming funds are usable openly as white money.

All these processes were self-generating and sustaining. However, the removal of trade barriers, quota systems and opening up of the markets has resulted in these processes suffering a serious set back. But the basic requirement to convert black funds into white is still necessary due to the black market and cash economies. The problem of cash economies is still to be addressed. And till it is addressed, the problem of informal transfer of funds (for the purpose of conversion or just for transfer to use openly) will exist since it is integrally tied to cash economies.

#### **8. CLIENTS:**

Total number of clients interviewed: 16

Number of Clients declined interviews: 4

Break up of the interviewed: 5 Afghanis, 4 Pakistanis, and 7 Indians.

The reasons given by the Clients for using Financial Agents to transfer funds were relatively similar, hence have been classified together. Most of the Clients were illegal immigrants therefore could not meet the identity document requirement of institutions.

Although certain institutions do not require identity documents for executing transactions below a thousand dollars, to open accounts at the institutions identity documents are required. Also, the process is cost effective (for example, Western Union charges \$20 for transferring \$301 to Afghanistan, Pakistan or India, where as, a Financial Agent would charge \$10 for the same amount. And in some cases, the Financial Agents do not charge any fee to execute transactions (they make money on the exchange rate spread)).

Dispensing of funds through a financial institution is always in the local currency of the Recipient Country. Whereas Financial Agents dispense funds to clients in United States currency. This is a major advantage to the recipients who sell the United States currency in the market and receive a premium or better rate compared to the official exchange rate given by the financial institution.

Home delivery (i.e., pick-up and drop-off) is another big advantage. And no additional fee is involved for this service. And documentation (at the receiving end), is often not required since the address, name or a code are considered adequate.

Level of education and social customs play an important role. Typically, the recipients are less educated than the sender-clients. The recipients find approaching an institution intimidating versus receiving the funds at their door step. Neither does social custom in certain jurisdictions

encourage women to travel alone. Often, it was observed that the husband or a male member of the family immigrated to the West leaving behind the wife, children and parents in the Recipient Country. Given these circumstances, home delivery was the preferred choice for these Clients.

Furthermore, the offices of the financial institutions are often located in the main cities/towns. And recipients reside in distant villages. To receive funds when sent through an institution, they have to travel to the city, which is not convenient. The home delivery service offered by the Financial Agents is attractive in these instances.

Some Clients also mentioned the time delay involved in executing transactions by financial institutions. For example, if a check is mailed to a recipient in India, it takes over 30 days for the recipient to receive the funds (after depositing the check into their bank account). And international wire transfers can take 3 to 5 days compared to a 24 hour delivery offered by Financial Agents.

In the event of funds getting lost in transit, the process can take longer. In such cases, reports have to be made and forms filled out at the financial institution to track the funds. And the process to track fund is time consuming. The Financial Agents usually transfer funds within the stated time and in the requested currency.

### **SECTION III**

#### **9. CONCLUSIONS/RECOMMENDATIONS:**

As stated previously, contradictory statements and major occurrences of participant reluctance makes further empirical research in the area necessary to support the trends observed in this study and to research / observe new ones.

During this research it was extremely difficult, if not impossible to estimate the actual funds transferred in and out of Canada by the Financial Agents. Given certain responses by the participants regarding the monetary ranges (e.g., “anything from half a million to three quarters,” or, “up to two hundred thousand,” or, “any amount”), it can be concluded that the amounts involved are substantial.

However, other researchers/estimates are more specific. For example, Pakistani officials estimate that over \$5 billion in transactions occur through Hawala networks every year. One third of these transactions reportedly consist of the repatriation of funds from expatriate Pakistanis to their families. Pakistani nationals may hold between \$40 billion and \$60 billion in overseas financial assets—an amount roughly equivalent to the country's gross domestic product (Looney, 2002:2).

And in the case of India, Interpol places the size of Hawala at possibly 40 percent of the country's gross domestic product. In 1998, the most recent year for which data are available, estimates place the amount of money in the country's Hawala system at \$680 billion, roughly the size of Canada's entire economy (Looney, 2002: 3; Baldauf, 2002:12).

However, none of the research studies explain or illustrate the process by which these estimates were determined. Moreover, as this study assumed that the process is integrally tied to cash economies, other researchers have tied it with the black market economy, smuggling, trafficking and terrorist financing to illustrate the serious potential threat posed by these systems (Passas, 2002). But these are all ‘potential’ or ‘allegations’. As it is impossible to determine the size of the black market economy (Naylor, 2002:7-11) or estimate the amount involved in these other activities, it is even less possible to determine the actual amount transferred through the informal banking systems.

The historical role of these systems as reliable, trusted, efficient and cheap and often, as the only method possible (as in Afghanistan or to remote villages in Pakistan or India), has to be given due importance before associating them with criminal activities. Most importantly, before implementing regulations against them to prevent criminal abuse, their values and requirements should be recognized and taken into consideration. Blunt regulations will force these systems underground and fail to prevent their mis-use. The differences in culture have to be understood and accommodated, for effective enforcement of any regulation.

Moreover, it was observed that the process is based on demands from the recipient jurisdictions. For example, it could be due to social customs, lack of infrastructure or national economic policies of the recipient countries that causes the system to flourish. The demand has to be addressed in the recipient side. Regulations in the supply side (the Source Countries) may not be adequate to prevent abuse. As traced by economic historians, from Prohibition to prostitution, from gambling to recreational drugs, never in history has there been a black market defeated from the supply side. Supply side controls act, much like price supports in agriculture, to encourage production and increase profit. At best a few intermediaries get knocked out of business. But as long as demand persists, the market is served more or less as before (Naylor, 2002:11).

Regulation in recipient countries plays an integral role in curbing or regulating the process. For example, the Intelligence Unit set up to crack down on Hawala transactions in India (Times of India: 2004) or the licensing process undertaken by the Pakistani government has resulted in the recipients preferring to use legal channels to transfer funds. This client choice from the recipient country helps in preventing mis-use because it compels the sender-clients to use legal channels instead of the informal ones.

Most participants were suspicious and reluctant to discuss their activities and the related problems. They were not clear about their on going obligations. Education plays an important role in these circumstances. Forming a Self Regulatory Organization (or “SRO”) of the participants is highly recommended. This would help in educating the participants and prevent the mis-use of the system to a great extent. All participants, though reluctant needed their problems addressed. An organization, such as a SRO can supervise the compliance requirements of the government, at the same time it can be a self-regulating and an independent organization consisting of the participants. For example, in a different context, the National Association of Securities Dealers is the Self Regulatory Organization for broker dealers in the United States. The registered broker dealer members pay a membership fee for the organization and it addresses and oversees the functioning. It ensures that the government regulations are complied with at the same time, addresses its member’s problems.

The creation of a Self Regulatory Organization consisting of the Financial Agents and other agents that offer other financial services can be of great assistance to the government and to the Financial Agents. By encouraging the creation of such a body the government will not be incurring any costs. Typically, in such organizations the members of the Self Regulatory Organization pay a membership fee. Thus the organization pays for itself through membership fees. The problems of the Financial Agents as well as the governments concerns regarding the potential abuse of the system can be dealt with efficiently.

It is noteworthy that when the interviewer mentioned the creation of such an organization to some of the interviewees, they were interested about the idea and were willing to discuss the possibility with other Financial Agents, other individuals in the same or related financial business and the government. Most approved and considered it an asset.

A separation of immigration from financial issues is also recommended. However, given the current climate it is debatable if a separation of the issues is feasible. However, if immigration issues are separated from financial issues, a lot of solutions can be found. It was observed that this process is primarily used by illegal immigrants. Other factors assisting the process, such as home delivery of funds and cost efficiency are being addressed by various recipient jurisdictions. For example, in India and in the United Arab Emirates, certain institutions have undertaken the home delivery process. And other financial companies (such as, The UAE Exchange Centre LLC, etc) are equally cost effective as the Financial Agents. It is the transfer of remittances by *illegal* immigrants that needs to be addressed. If there can be a separation of immigration issues from financial issues, the informal banking process may not be as attractive to Clients.

Lastly, and most importantly, further empirical research is strongly recommended. This recommendation is requested as a result of frequent instances of participant reluctance, contradictory statements during interviews and clarification requests that resulted in avoidance of further discussions or denial of previous statements. Further research is recommended to reconfirm these findings and trends.

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## **ATTACHMENT 1**

FOLLOWING IS A LIST OF QUESTIONS AROUND WHICH MOST DISCUSSIONS WERE HELD.

### QUESTIONS ADDRESSED TO FINANCIAL AGENTS:

Interviewee Code Number: \_\_\_\_\_

Country of origin: \_\_\_\_\_

Date \_\_\_\_\_

1. How long have you been in the money transfer business?
2. Why did you choose this business?
3. What are the difficulties in running this business?
4. Have you received a questionnaire from the government regarding your business? Have any other associates received one?
5. In yes, have you complied with it?
6. What does 'compliance' mean? Have you filed any reports with the government?
7. How can you be sure that none of your clients are involved (or using your services) for illegal purposes?
8. Is this your main business or is just ancillary? If not, what's the main business?
9. Do you travel to the country where you send money to frequently? (For business purposes? Or is it family/personal? How frequent?
10. When you travel, do you settle accounts then with you associated Financial Agents?
11. Are your associated Financial Agents, family members or business associates?
12. How do you settle accounts with the Financial Agents?
13. What is your legal status in Canada?
14. What is the average volume of money that gets remitted in a month?
15. How does the system work?
16. How fast can you remit the money?
17. How is it possible?
18. What is the fee?
19. How do you make a profit?
20. How do you get customers? Through advertising? Through word of mouth? Or other means?

21. Do you consider your business a service to the community?
22. How many people work for you? What is the arrangement between them & you --- is it for a salary or a fee split?
23. Do the individuals (working for you) conform to the information requirements as you do?
24. How long do you maintain records of transactions?
25. Can you explain the records?
26. How do you source products from other countries? What is the process of the transactions? (L/C, wires or reverses transactions?)
27. How long do you have to accumulate funds for (in Canada) before executing a trade transaction?
28. What are the typical kinds of products that you source for the transactions?
29. What are the other communities that you transact with/for?
30. Did the attacks of September 11, 2001 and their aftermath affect your business? If, so can you elaborate?
31. Have you ever been questioned, interviewed or monitored by Canadian security representatives?
32. If yes, could you elaborate?
33. Questions regarding US transactions: Who did you/do you transact with? Are they registered? Why is there a fee involved with transactions done with the US?
34. How are US funds available in the destination country? Is the rate that you buy the funds (for dispensing) profitable considering that you charge such a minimal fee?)
35. What kind of business problems do you face (with banks?). How do you resolve them?
36. Have you/ your associates considered forming an organizations (with other individuals doing the same business) to discuss the problems or to draw the governments attention to your problems?
37. Would you be reluctant to discuss your problems (like the ones you face with the banks or regarding the cost involved in compliance) with the government authorities?
38. Is there any other information you would like to share?

## **ATTACHEMENT II**

### QUESTIONS FOR CLIENTS:

Interview Code Number \_\_\_\_\_

Country of origin \_\_\_\_\_

Date \_\_\_\_\_

1. Why do you use the system?
2. How do you know about the FA? (Advertisement? reputation? family contact?)
3. Why do you not use banks or Western Union?
4. What is your status in this country?
5. How much money do you typically transfer?
6. Who do you transfer to? What is the purpose (regular support or occasional gifts on occasions?).
7. What is the currency preference that you request?
8. What is the difference in amount that your family gets (if they receive funds in USD) by selling them in the market? Is there not a risk involved in this process for your family?
9. Do you have any concerns about using the Financial Agents?
10. Have you ever been robbed by an FA?
11. If yes, what did you do?
12. What kind of work do you do? How do you get USD (vs. Canadian dollars) to give to the FA?
13. How much fee does the FA charge you for your transactions? Have you ever 'shopped around' to get a better rate?
14. Do you know of other Financial Agents in the community?
15. Would you use another community FA to send funds? If yes, which community?
16. Why would you trust this (other) community FA?