

# Informal payments, crime control and fragile communities



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# Background and three main points

- “Recently cash has become unpopular in political circles, as it effectively restricts states’ power to tax (explicitly or via negative interest rates) or to survey and potentially control their citizens. Several states have enacted restrictions to the use of hard cash.”
- De-risking and avoidance of informal remittance companies. Is switching out of cash for better risk management and control?
- Are most damaging crimes and risks in cash?
- Regulatory arrangements unsatisfactory
- Useful means to monitor and help develop economies and fragile states

# NO CASH SCANDALS AND RISKS

- DEUTSCHE BANK
- BNP PARIBAS
- HSBC
- JPMORGAN CHASE
- CITIGROUP
- LLOYDS BANKING GROUP
- MADOFF INVESTMENT SCANDAL
- LIBOR
- FINANCIAL CRISIS
- BANK OF NEW YORK
- 9/11
- S&Ls in the USA, BCCI, PPI, AMBROSIANO, KP, RM, R, ETC
- “ODIOUS DEBT”, GS AND EUROZONE

# LIBOR



# JPMORGAN CHASE





# MADOFF INVESTMENT SCANDAL



**SIPC = SCAM**

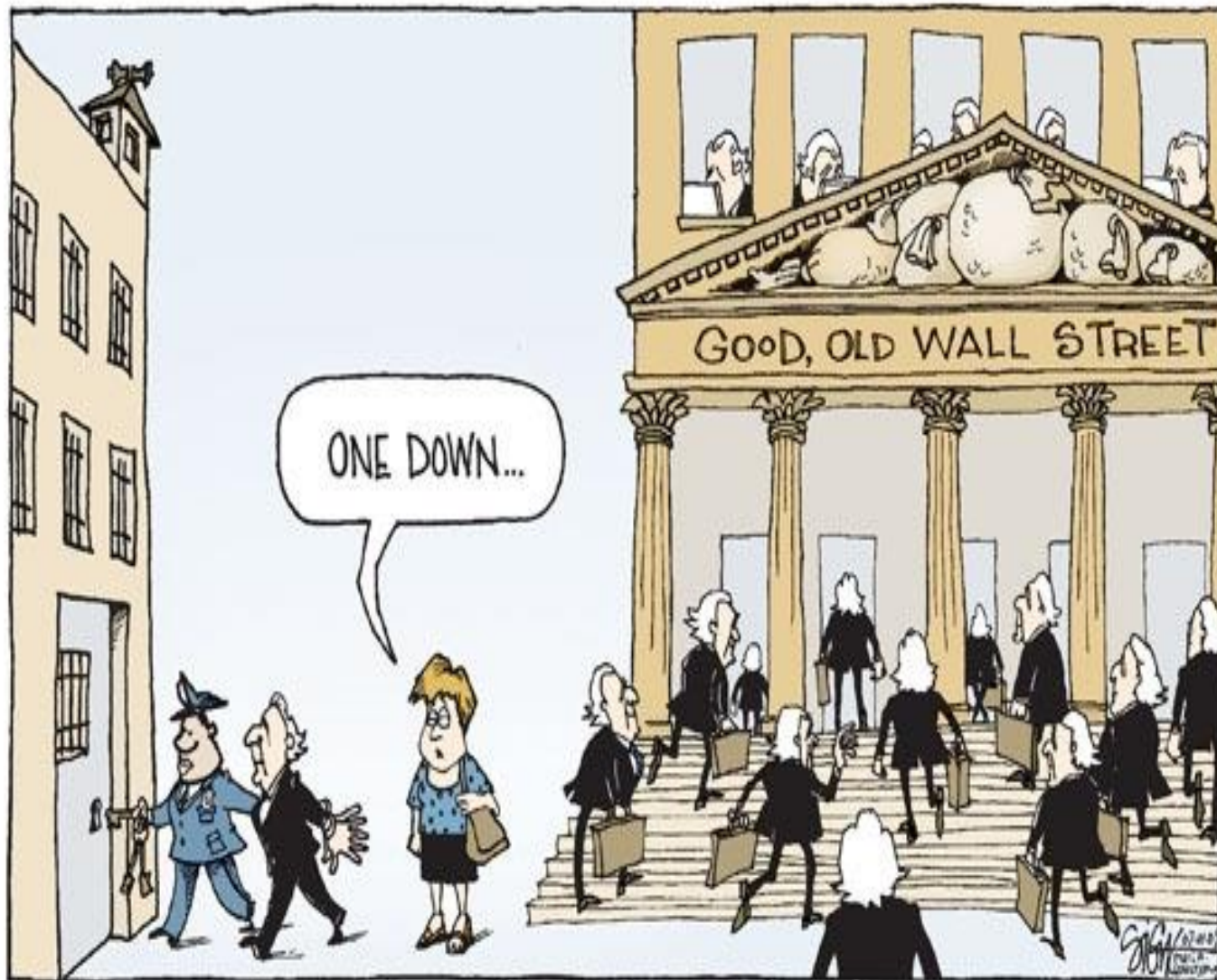
Where  
was  
The SEC?

Do  
YOU  
know where  
YOUR  
money is?

Sorry  
Excuse

**MADOFF**  
Stole it  
**SEC**  
Ignored it  
**IRS**  
Kept it

# MADOFF INVESTMENT SCANDAL



# FINANCIAL CRISIS





# FINANCIAL CRISIS



- Distrust of government and banks in recent times
  - capital controls and bail ins reminiscent of older scandals around the world
- 85% in cash and 2.5 billion w/out account –  
reduce cash by turning clients away from banks?  
migrants banked in EU now?
- De-risking and humanitarian law violations:  
communities starved, countries left out, capital  
drained out of entire economies, development  
and global growth undermined

# Fighting terror with error

- Informal remittance channels furnish vital service but also facilitate serious crime, not unlike banks and other formal financial service providers.
- Regulation inconsistent, misapplied, mis-measured, ineffective, costly, counter-productive
- Policies formed with imperfect knowledge of sectors and networks subject to regulation, independently of industry/community views, and without coordination at national and international levels.
- Regulation necessary but proportionate to the risk and appropriate to socio-economic and cultural environments.

# De-risking and risk growth

- eliminate company risk for individual financial institutions
- increase the systemic risks and create additional externalities.
- Displacement to channels harder to monitor.
- Billions of legitimate flows unduly criminalized or treated as suspicious.
- Raise the cost of sending money to the very people who need more options and lower costs for remittance services.
- needy communities and families suffer, may be unable to survive in challenging and conflict-ridden contexts. Development projects and economic growth undermined by lack of liquidity and investment with dire effects on the banking and other industries.
- Anti-West sentiment, radicalization and violent conflict as well as additional pressures to migrate to Europe or OECD countries in search of economic and security shelter

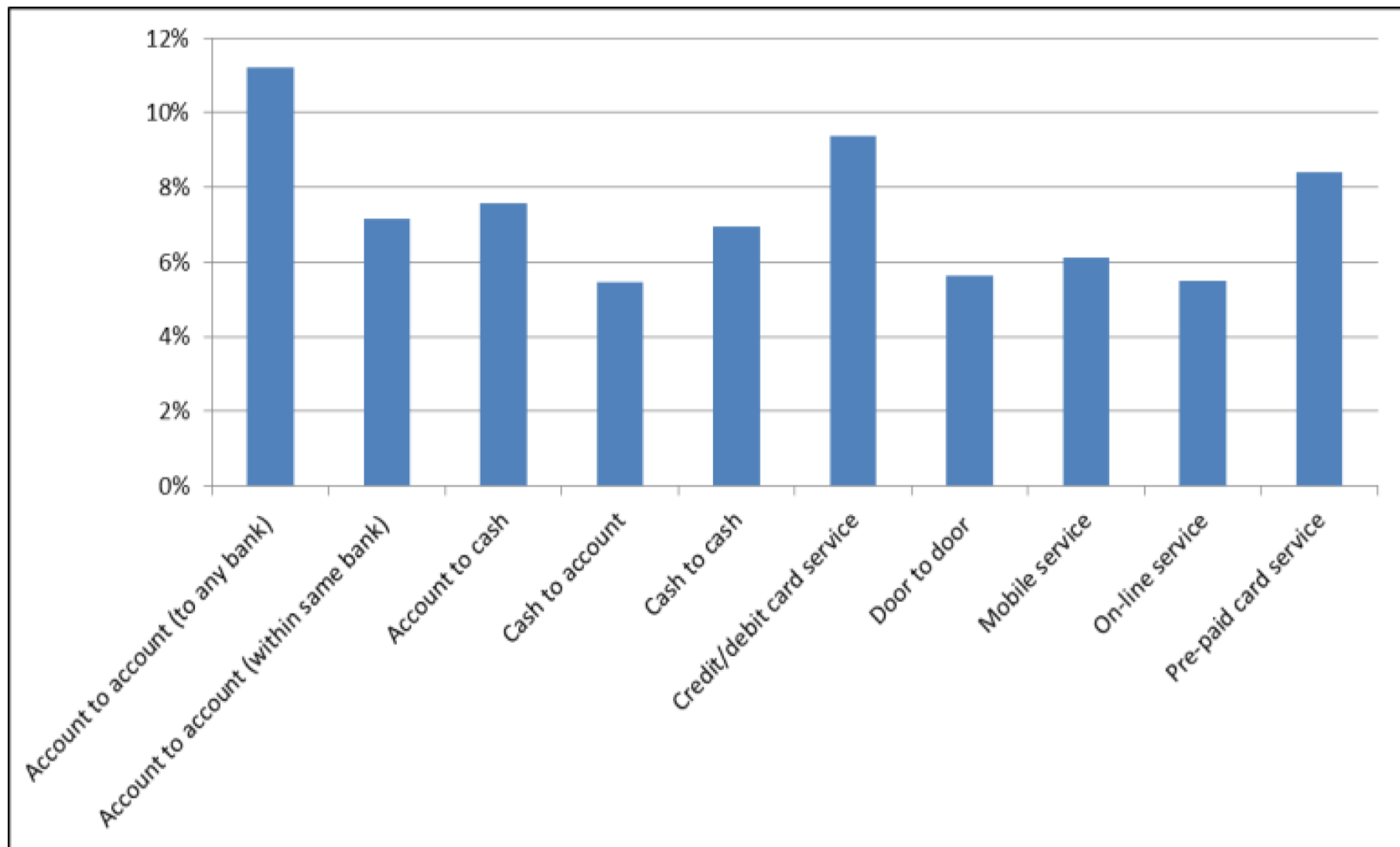


- The entire humanitarian community in Somalia relies on the availability of MSBs to do business including transferring funds for project activities to organization staff or local partners and paying for staff and office running costs.
- Without MSBs, the UN and NGOs in Somalia would be forced to carry cash to pay day-to-day operational and program costs, placing funds and staff at risk in an insecure environment

- 51 percent are women - remittances account for 64 percent of their income
- A large majority employed, particularly in such professions as teaching and entrepreneurship
- Remittances account for 60 percent of their average annual incomes of \$3,000

- The average cost of sending \$200 to Somalia is \$10
- 5 percent falls below the 9 percent average cost of sending remittances globally and well below the 12 percent average cost of remitting to Africa (WB 2013)
- Somali-American remittance companies often also provide unofficial checking “accounts” ...but the funds are not insured

**Figure 11 Average cost by product type**





## Comparative amounts received in Pakistan for 100 USD from Dubai

Method of remittance	Charges	Total paid	PK Rupees received
Draft (exchange house)	1.36 - 2.722	101.36 - 102.722	5901 – 5910
Draft (Bank)	2.722 - 6.80	102.722 - 106.80	5890
TT (exchange house)	9.52 - 16.33	109.52 - 116.33	5901 – 5910
TT (Bank)	12.25 - 27.22	112.25 - 127.22	5890
Western Union	9.52	109.52	5858
Hawala	NIL	100	5920

# Legal Status of IFTS (FATF 2013)

Table 3.1 Legal Status of *Hawala* and Other Similar Service Providers

	Status of <i>hawala</i> and other similar service providers		
	Illegal	Legal	Total
<b>Number of Countries</b>	<b>18</b>	<b>15</b>	<b>33</b>
of which Developed Country	6	11	17
of which Developing Country	12	4	16

# USA Federal regime

- Registration
- Record Keeping
- Reporting Suspicious Transactions
- KYC
- AML procedures even for unregistered agents

# US States

- Licensing
- Bond, capitalization, net worth, fees
- Non-pragmatic and unaffordable patchwork of rules



State	Net worth	Bond	Fee
California	min \$ 500,000 in equity	Determined by Commissioner	\$ 5,000 plus \$50 per agent
Florida	min. 100,000 plus \$ 50,000 per location in FL up to \$ 500,000 - may be waived upon request	Set by commission rule – max. \$ 250,000 – up to \$500,000 in exceptional circumstances - may be waived upon request	Appl.. \$500 plus \$50 per agent; renewal \$1000 \$50 per agent up to \$20,000
New Jersey	(1) min. \$100,000 plus \$25,000 per location or agent in NJ up to \$1,000,000. (2) \$50,000 for foreign money transmitter plus \$10,000 per location or agent up to \$400,000	(1) min \$100,000 up to \$1,000,000 (2) foreign remitters: depending on volume \$25,000-\$100,000 - commissioner may require up to \$900,000	Appl.: \$1,000 Lic.: up to \$4,000 Biannual fee \$25 per location up to \$5,000
New York	Investments equivalent to outstanding payments	Min. \$ 500,000, unless superintendent determines lower amount suffices	\$ 500 annual + \$1,000 investig.
Illinois	\$35,000-\$500,000 depending on number of locations	Min. \$100,000 or average daily outstanding for 12 months - max. \$2,000,000	\$100 appl. \$100 license \$10 per/l – ren. \$100- \$10 p/l
Pennsylvania	\$500,000	\$1,000,000	Appl. \$ 1,000, renewal \$300
Texas	\$25,000 per location up to \$1,000,000	Min. \$300,000 determined by commissioner \$ 100,000 for first location, \$ 50,000 for each additional up to \$ 400,000	Appl./lic., invest. and renewal [\$500 licensing + \$2,500 invest.]
Virginia 11/6/2015	\$100,000-1,000,000 as determined by the Commission	\$25,000-1,000,000 as determined by the Commission	License \$ 500, renewal \$750

# Lawful but awful: Account Closings

- OCC advisory
- Examiners' practice
- Bank initiative
- 100s of legitimate accounts closed
- Underserved and undeserved: Private industry end up deciding who would get indispensable services and who would not
- Risk-based? Sunrise, Barclays, etc.

August 16, 2012

RE: [REDACTED] Your Deposit Account Relationship with [REDACTED]

Dear [REDACTED],

We have recently completed a review of your account and determined we are unable to continue our banking relationship with you. We acknowledge that you have banked with us for a number of years, however, trends in the regulatory environment and changes in our Bank's policies require that we discontinue your relationship.

In order to provide time for you to relocate your accounts, we are not closing them immediately. Instead, we would ask that your accounts be closed no later than SEPTEMBER 20, 2012. Any collected funds remaining in your accounts on SEPTEMBER 20, 2012, will be sent to you at the address we have on file for mailing account statements and notices, via the United States Postal Service in the form of a cashier's check. No deposits or withdrawals will be processed beginning on this date.

Our goal is to assist you in the orderly closure of your accounts and would ask that you call me with any questions that you may have in this process. I can be reached at [REDACTED].

Sincerely,



[REDACTED]

August 1, 2012

Reference # [REDACTED]

Dear Business owner:

Thank you for your [REDACTED] business checking or savings account application. The Office of the Comptroller of the Currency (OCC) has issued guidance regarding factors that a national bank should consider when evaluating a new account request for a Money Services Business. Our analysis of the information received leads us to conclude that your business did not fall within the acceptable risk parameters of our Money Services Business Program as a result of at least one of the following:

- o Your company did not meet our requirements in our business due diligence background investigation.
- o [REDACTED] determined that your account(s) create an unacceptable level of risk for the bank.
- o The [REDACTED] Money Services Business Due Diligence Unit did not receive requested information by the required date.

This letter confirms that your account application is declined.

Again, thank you for your interest in doing business with [REDACTED]

Thank you,

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]











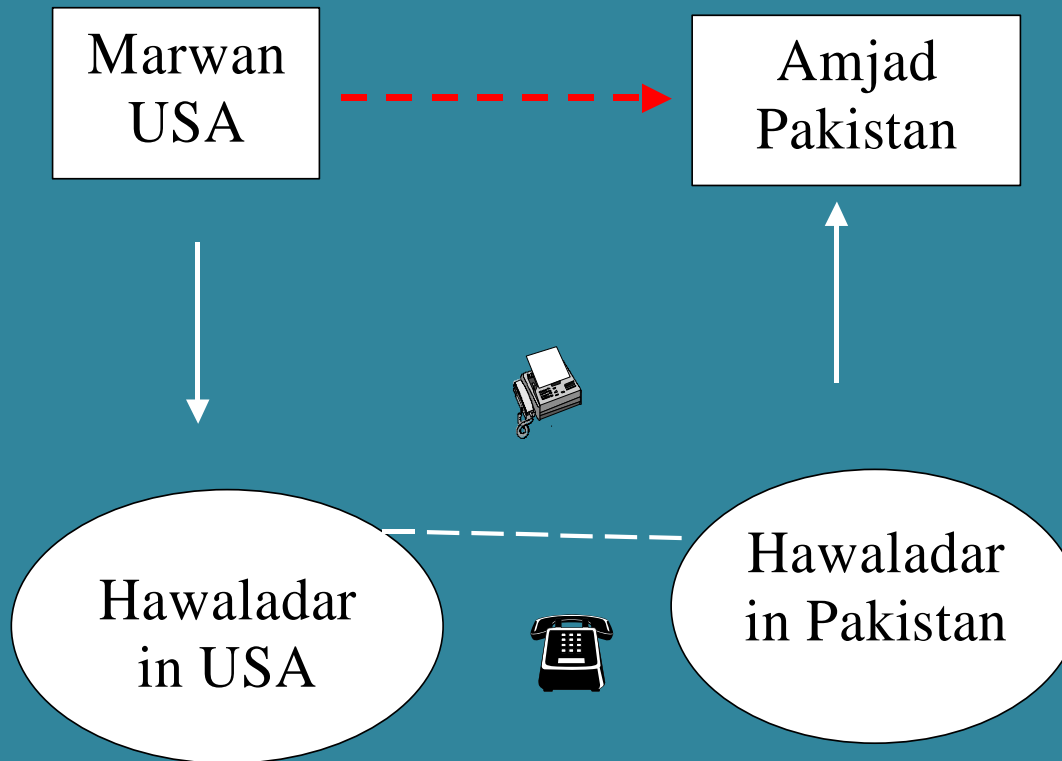




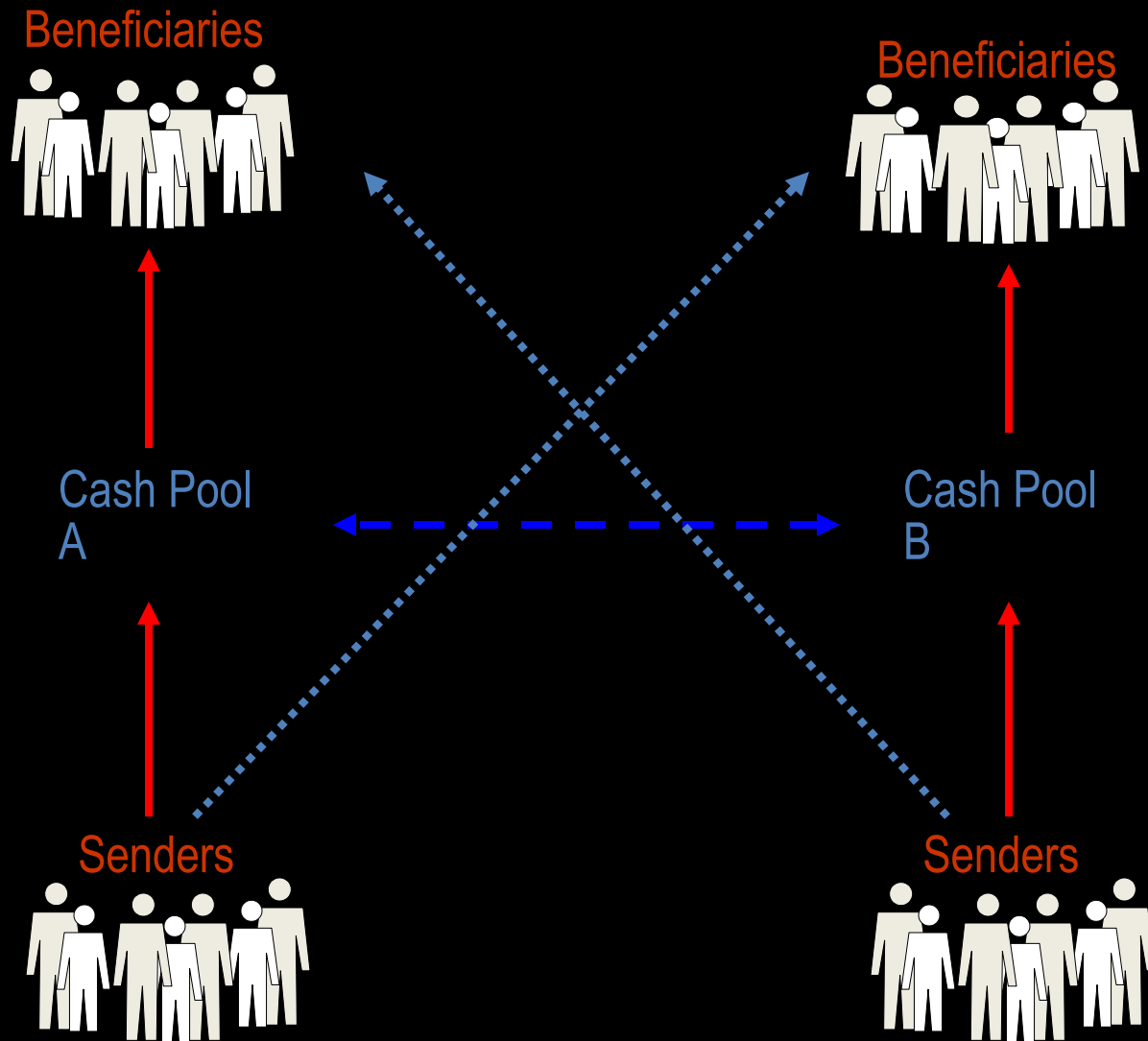
# Impact

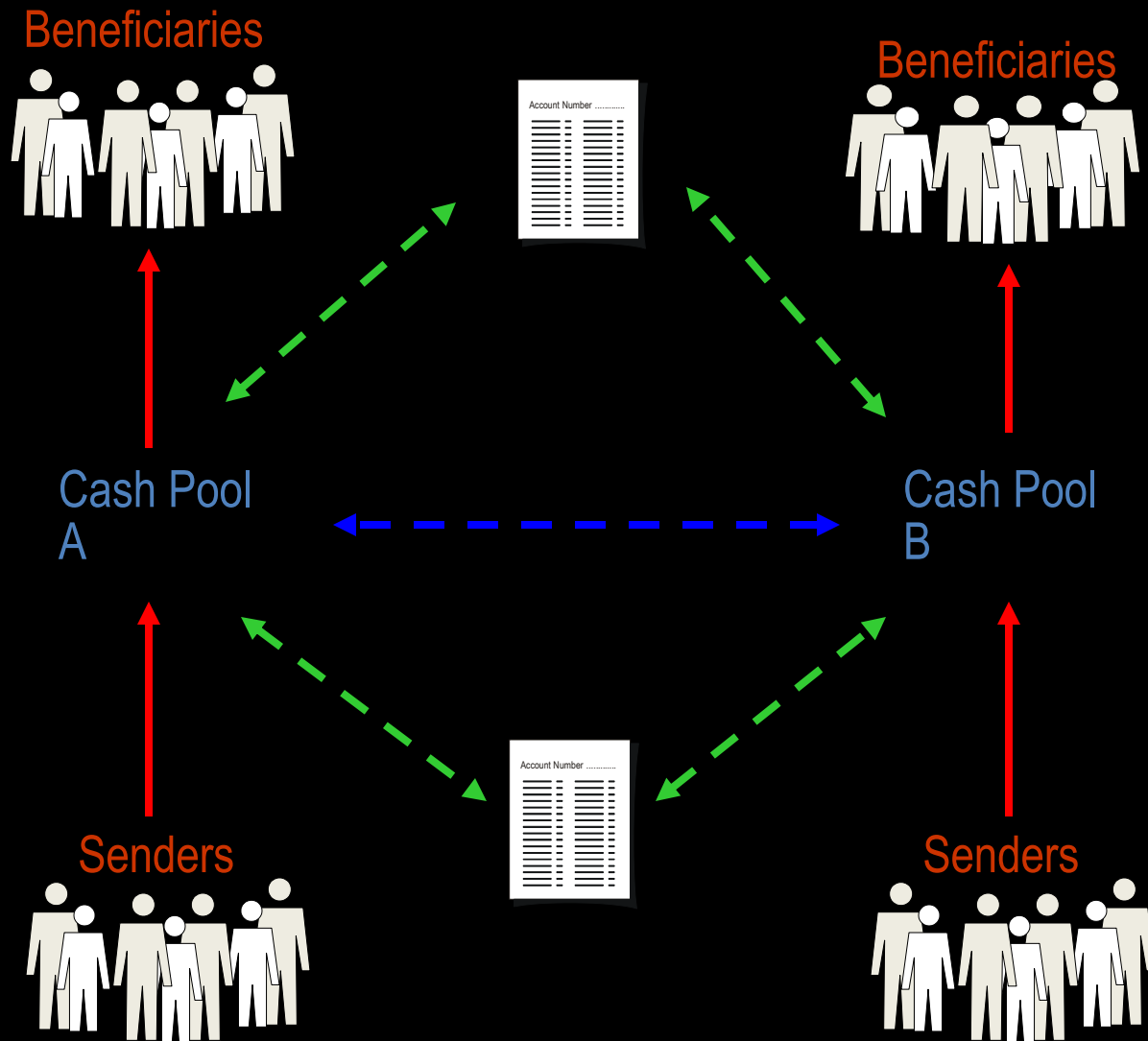
- **“For them, it’s small potatoes, but for us, it’s how we feed our families”**
- **More conflict and radicalism**
- **Lower capacity to monitor illicit flows**

# Basic Hawala









## Example of fax record keeping

**F.A.O. GURU**

**22/05/01**

**PAGE 1**

**492** SENDER : - HARJIT SINGH RECEIVER : - R.K. GUPTA W / O SANJOY SINGH  
128/6 PREET NAGAR LADOWALI ROAD JULLUNDHUR TEL : - 181 12345

**DISTT. JULLUNDHUR 1400//=**

-----  
**493** SENDER : - JOHANDER PARTHA RECEIVER : - BHAGWANT SHARMA WIFE OF  
LATE SEN SINGH SON JOGINDER SINGH HOUSE NEAR THE GURUDWARA  
VILLAGE DALEWAL P.O. GORAYAN TEL : - 1826 12345 **DISTT.**

**JULLUNDHUR 1000//=**

-----  
**494** SENDER : - KANG RECEIVER : - ARJINDER SINGH DEFENCE COLONY **MOBILE**  
**NO.98141-12345 OR 981 55 123456 JULLUNDHUR**

**18000//= TOKEN NO. 4AS 689122 (50 INR)**

-----  
**URGENT MESSAGE**

**THE ORDER NO 494 ABOVE**

**MUST BE DELIVERED BY WEDNESDAY 23RD MAY**

**2001 OR THE LATEST 24TH MAY 2001 IT IS**

**EXTREMELY URGENT**

FAX SAMPLE

**Beautiful Rates International**  
**INTERNATIONAL CURRENCY BROKERS**

68 Huntington Street, Birmingham.

Telephone & Fax : 0123 - 87695 / 885345 / 981919 Mobile 0123 - 9934503

**DATE :-07/04/01**

**DEAR MOHAMAD XXX JI**

**SEN GUPTA**

**WOULD YOU KINDLY DELIVER THE ORDER BELOW AS SOON AS  
POSSIBLE : -**

**PUNJAAB**

**450 SENDER : - LALA RECEIVER : -BABA SINGH OR DAUGHTER SINGH**

**V.P.O.SHAHCOTE TEL:- 123474430/ 12352 / 12347**

**TOKEN NO. 90H707111(10 INR) 950000 ( NINE LACS FIFTY THOUSAND  
INR)**

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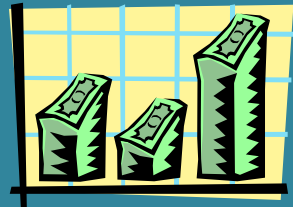
# Computer entry sample

1997							
TOTAL	==	54812.42		80000	3456000	86943.4	-6943.4
<b>Destination</b>	<b>RATE</b>	<b>£from clie</b>	<b>SELL RAT</b>	<b>\$Credit</b>	<b>RS Debit</b>	<b>\$ Debit</b>	<b>\$ BAL</b>
							0
Jagraaon	39.75	2301.587	63		145000	3647.799	-3647.8
Ludihana	39.75	2968.254	63		187000	4704.403	-8352.2
Gorayan	39.75	1587.302	63		100000	2515.723	-10867.9
Uppal Khals	39.75	3164.557	63.2		200000	5031.447	-15899.4
Chaachoki	39.75	1968.504	63.5		125000	3144.654	-19044
khoje'	39.75	1593.625	62.75		100000	2515.723	-21559.7
Sansarpur	39.75	2380.952	63		150000	3773.585	-25333.3
Shanker	39.75	1600	62.5		100000	2515.723	-27849.1
Jettawali	39.75	7905.138	63.25		500000	12578.62	-40427.7
Naugajja	39.75	2142.857	63		135000	3396.226	-43823.9
Barsal	39.75	1739.13	63.25		110000	2767.296	-46591.2
Poodra	39.75	3968.254	63		250000	6289.308	-52880.5
Manak Rai	39.75	5000	63		315000	7924.528	-60805
Balachor	39.75	2000	63		126000	3169.811	-63974.8
Rampur Jhaj	39.75	1574.803	63.5		100000	2515.723	-66490.6

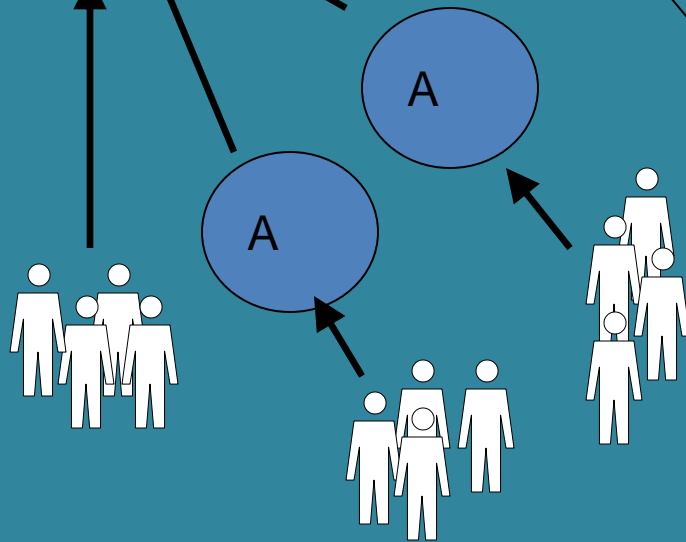


USD  
C

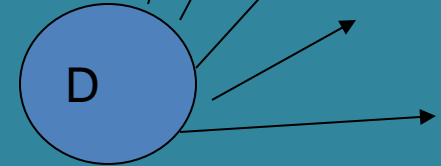
# Various levels of hawala



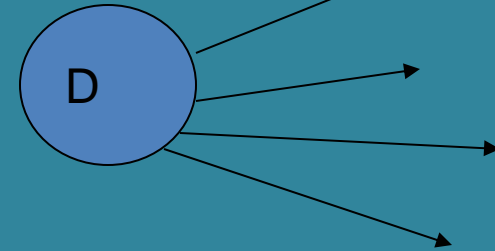
B  
Pounds



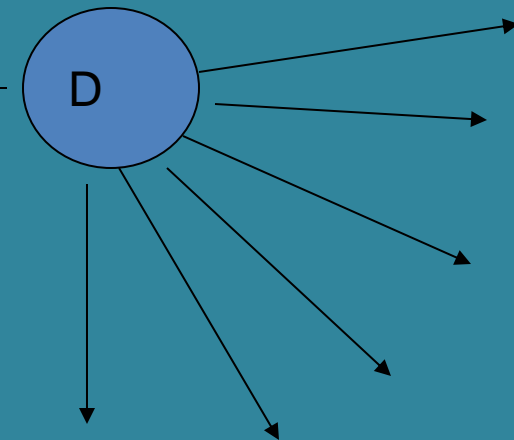
Account 1  
NYC



Account 2  
Dubai



Account 3  
Hong Kong



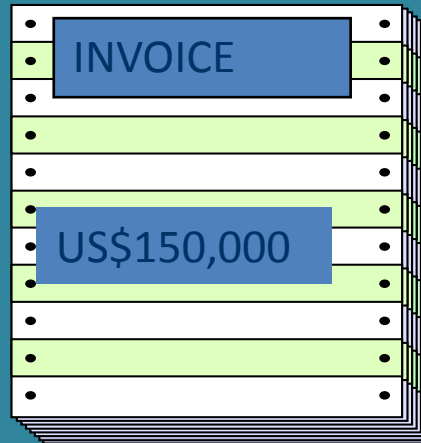


# Under Invoicing



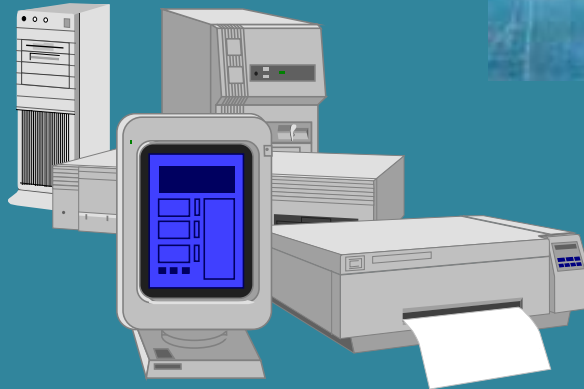
Value goes from London to South Asia

# Under Invoicing

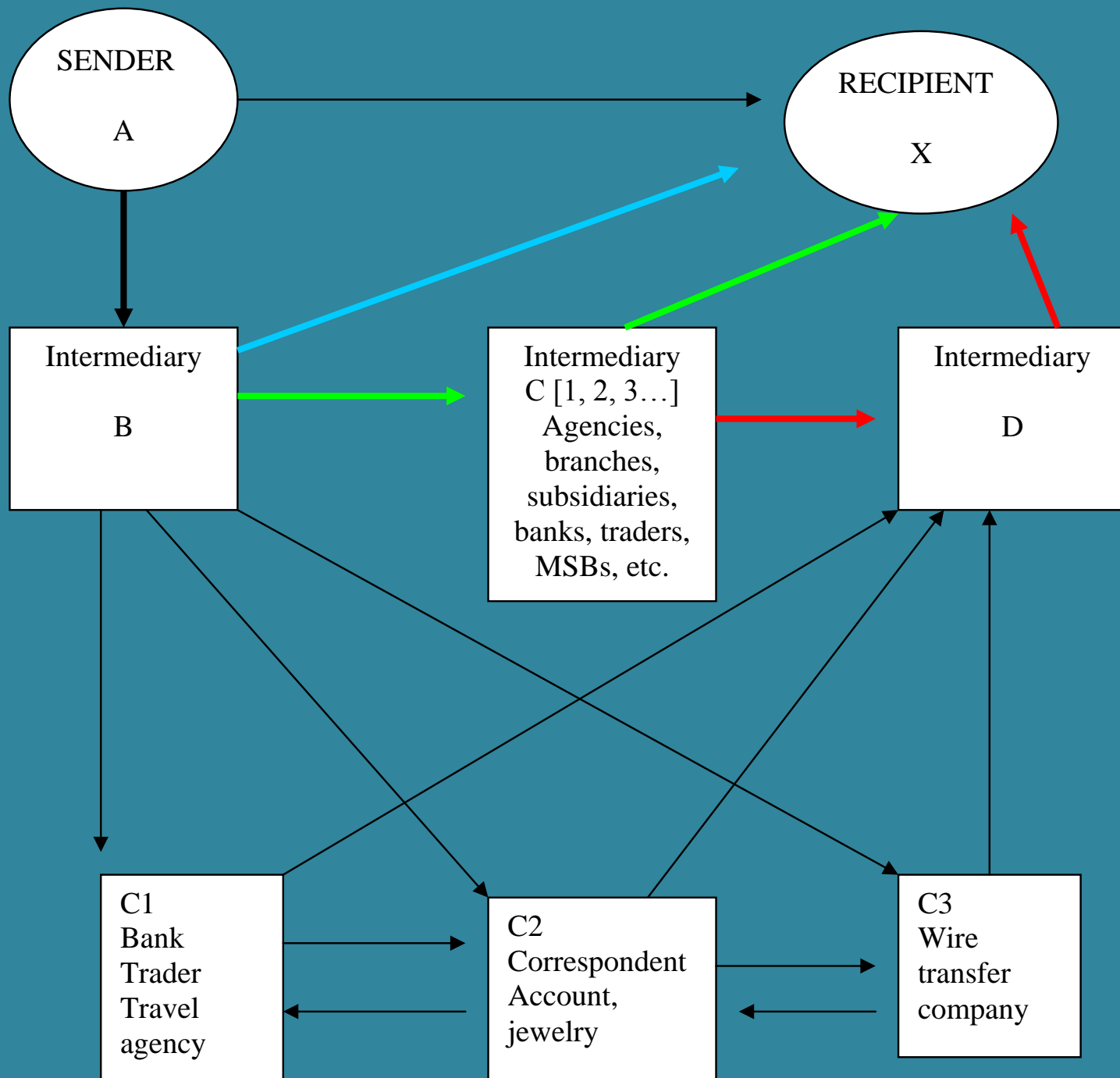


SA sends B \$150,000 and receives invoice

# Under Invoicing



for \$250,000 worth of computer hardware,  
which balances B's \$100,000 debt to SA



# Risks to consider

- Thoughtless global regulation (forced cosmopolitanism, “derisking” and legal transplants) → paper compliance → loss of control (reinforced parochialism)
- Traceability v. transparency
- Legitimacy v. legality disparities grow – no sustainability
  - Lawful but awful practices
  - Unlawful but useful practices