

House Committee on Financial Services  
*Terrorism and Illicit Finance Subcommittee*

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# Managing Terrorism Financing Risk in Remittances and Money Transfers

JOHN CASSARA

Board of Advisors Member  
*Center on Sanctions and Illicit Finance, FDD*

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Chairman Pearce, Ranking Member Perlmutter and members of the House Financial Services Subcommittee on Terrorism and Illicit Finance, thank you for the opportunity to testify today. It is an honor for me to be here.

“Without money, there is no terrorism.”

This simple truism was recognized early on. A few days after the deadliest terrorist attack in U.S. history, President George W. Bush stated, “Money is the lifeblood of terrorist operations. Today we are asking the world to stop payment.”

Almost sixteen years after the September 11 attacks, we are meeting here in part to ask, “Has America and the world stopped payment?”

The answer is not simple, particularly when it comes to both formal and informal remittance systems. Unfortunately, we have seen how successful terrorist and organized criminal groups diversify their funding sources and methods. These include remittance networks. Moreover, our adversaries are creative. They adapt to our countermeasures.

I am joined by colleagues with tremendous expertise in the formal remittance industry. So, I would like to primarily address my remarks to informal remittances sometimes known as informal value transfer systems (IVTS), parallel banking, underground banking, or sometimes just “hawala.”

Long before the September 11 terrorist attacks, I was concerned about informal value transfer and remittance systems. I investigated some of these networks in Europe and the Middle East. Through subsequent books and articles I have been trying to draw attention to them. These systems exist here in the United States and though regulated as money services businesses after 9/11,<sup>i</sup> for the most part, continue to operate under the radar screen of many U.S. law enforcement and regulatory bodies.

I would like to briefly discuss the magnitude of the problem; how hawala and similar systems operate; why they are attractive to their customer base; how hawala brokers settle accounts; the futility of our current countermeasures, worrisome links to terror finance and criminality; vulnerabilities; and some suggested steps forward.

## **Magnitude**

There are an estimated 244 million migrant workers around the world.<sup>ii</sup> Globalization, demographic shifts, regional conflicts, income disparities, and the instinctive search for a better life continue to encourage ever more workers to cross borders in search of jobs and security.

Many countries are dependent on remittances as an economic lifeline. Although estimates vary, according to the World Bank global remittances may have reached approximately \$575 billion in 2016.<sup>iii</sup> Western Union, Money Gram, Ria Money Transfer, Dahabshill are just a few of the

well-known companies that provide official remittance services for the world's migrants. Of course, banks and non-bank financial institutions are also used. In 2013, some of the top recipients for officially recorded remittances were India (an estimated \$71 billion), China (\$60 billion), the Philippines (\$26 billion), Mexico (\$22 billion), Nigeria (\$21 billion), and Egypt (\$20 billion). Pakistan, Bangladesh, Vietnam, and the Ukraine were other large beneficiaries of remittances. As a percentage of GDP, some of the top recipients were Tajikistan (48 percent), the Kyrgyz Republic (31 percent), Lesotho (25 percent), and Moldova (24 percent).<sup>iv</sup>

In 2015, approximately \$133,552,000,000 in remittances was sent from the United States to other countries. Top recipients include Mexico, China, the Philippines, and Vietnam.<sup>v</sup>

The above are estimates of what is *officially* remitted. Unofficially, nobody knows. However, the International Monetary Fund believes, "Unrecorded flows through informal channels are believed to be at least 50 percent larger than recorded flows."<sup>vi</sup> So, using the above World Bank and IMF estimates, *unofficial* remittances may be greater than \$850 billion per year, with a substantial portion of that originating from the United States.

Informal channels operate outside of the ironically labeled "traditional" channels. It's ironic because for most of the migrants involved, the alternatives to Western-style or formal remittances are very traditional for them.

Informal remittances are sometimes touted as a new phenomenon and a symptom of the emerging borderless world. They have also erroneously been labeled "a measure of success" in our efforts to combat international money laundering and terrorist finance due to our crack down on illicit money moving through formal banking channels. Yet diasporas and remittances have existed since ancient times. For example, the Chinese practice of fei-chien, or "flying money," dates back to the T'ang Dynasty (618-907 AD).<sup>vii</sup>

The following is a partial list of worldwide informal remittance systems. The names vary based on a number of factors including geographical locations and ethnic groups:

- Hawala – India, Afghanistan, Africa, the Middle East, Gulf, parts of the Americas
- Hundi – Pakistan, Bangladesh
- Undiyal – Sri Lanka
- Havaleh – Iran
- Door-to-door / padala – the Philippines
- Black market currency exchanges – Nigeria, South America, Iran
- Stash houses / casas de cambio – Latin America
- Phoei kuan – Thailand (Teochew Chinese)
- Hui kuan – China – (Mandarin Chinese)
- Fei-chien – "flying money" China
- Ch'iao hui – overseas remittances – (Mandarin Chinese)

- Chop shop – foreigners sometimes use this term for one of the Chinese systems
- Chiti-banking – (refers to the “chit” used for receipt or proof of claim in transactions; introduced by the British in China)

The two largest underground remittance systems are hawala (and its various sister systems such as hundi and undiyal) and the Chinese fei-chien (and its corollaries). They are both global in scope. While there are no reliable estimates as to the magnitude of these two informal remittance systems, both are probably responsible for hundreds of billions of dollars in unregulated (and non-taxed) money transfers a year.<sup>viii</sup>

Although diverse, alternative remittance systems are found throughout the world, most share a few common characteristics. The first is that they all transfer money without physically moving it. Another is that they all offer the three C’s: they are certain, convenient, and cheap. They are all ethnic based. They are sophisticated and efficient. And finally, historically and culturally, most alternative remittance systems use trade as the primary mechanism to settle accounts or balance the books between brokers.

I would like to emphasize that I have the utmost respect for these systems.

The overwhelming percentage of money transfers generated by the use of these informal remittance systems is benign. They are primarily used to remit a portion of migrants’ earned wages back to their home countries to support their families. We, of course, do not wish to interfere with this process.

However, because these systems are opaque and based on trust, they avoid our primary anti-money laundering and counter-terrorist finance (AML/CFT) countermeasures. As Osama bin Laden once said, jihadists are aware of the “cracks” in our Western financial system.<sup>ix</sup> Informal remittances are not just a crack but a Grand Canyon. There is no doubt that in addition to remitting wages, they are also abused by criminal and terrorist organizations.

## **How They Operate <sup>x</sup>**

The definition of hawala was concisely expressed during the 1998 U.S. federal trial of Iranian drug trafficker and money launderer, Jafar Pour Jelil Rayhani and his associates. During the trial, prosecutors called hawala “money transfer without money movement.” That is, a broker on one side of the transaction accepts money from a client who wishes to send funds to someone else. The first broker then communicates with the second broker at the desired destination who distributes the funds to the intended recipient (less small commissions at both ends). The money does not physically move from Point A to Point B. The key ingredient is trust. Most brokers are of the same ethnic group and many are members of the same family, tribe, or clan.

To illustrate how the hawala remittance process works, we will use a typical example. Ali is an Afghan national, recent immigrant, and a construction worker in Your District. (Note: While in

this example Ali is Afghan, he could just as easily be Pakistani, Iraqi, Syrian, Somali, North African, Lebanese, Indian, Chinese, etc.) Ali emigrated to the United States years ago and earns money that helps support his family. He periodically sends a portion of his salary back to his elderly father, Jafar, who lives in a village outside of Kandahar in southern Afghanistan. To make his monthly transfer - usually about \$200 - Ali uses hawala. This is very common in Afghanistan. About 30 percent of its population is externally and internally displaced, and remittances from outside of Afghanistan are received by about 15 percent of the rural population. Hawala has been described as the de facto national banking system of Afghanistan.

If Ali went to a bank in Your District to send the money home to his father, he would have to open an account. He doesn't want to do that for a number of reasons. First, Ali grew up in an area of the world where banks are not common. He is not used to them and doesn't trust them. Next, Ali has little faith in governments and wants to avoid possible scrutiny. Many immigrants believe the government is monitoring their immigration status and/or will make them pay taxes. He also doesn't want the U.S. government to screen his money transfers to Afghanistan. In addition, although Ali has lived in Your District for a few years, he is still a bit intimidated. His English is marginal. He is only semi-literate (the literacy rate in Afghanistan is quite low) and cannot fill out the necessary forms. Moreover, banks charge their customers assorted transfer fees and offer unfavorable exchange rates. If Ali only earns a little money and is sending \$200, bank transfer fees of 10 percent or more are quite substantial.

Generally speaking, the average cost of transferring funds through an alternative remittance system such as hawala between major international cities is about 2– 5 percent of the value transferred. (Globally, the cost of sending \$200 through formal remittance companies averaged 7.45 percent in the first quarter of 2017, although this was significantly higher than the Sustainable Development Goal (SDG) target of 3 percent.<sup>xi</sup>) The price differential is in large part due to the fact that hawaladars (hawala brokers) generally don't have large brick and mortar businesses. Since they operate in the shadows, taxes and regulatory fees are minimal as well as administrative and personnel costs. Of course, prices in both the formal and informal remittance industries are influenced by a variety of factors. Hawala networks are most competitive when they operate in areas where banking systems and overt money remittance chains find it difficult, expensive, or high risk to operate – particularly in areas where our terrorist adversaries operate.

Delivery of a bank transfer to Jafar would pose additional problems. The number of licensed banks in Afghanistan is still small. They are used by only about ten percent of the population.<sup>xii</sup> Particularly in a poorly secured area such as Kandahar, Jafar does not want to leave his village home and travel a far distance to a bank.

In light of these problems and concerns, Ali uses a hawaladar in Your District who is a member of his extended clan and family. He feels comfortable dealing with him. The hawaladar also owns and operates an “import/export” company in Your District. The hawaladar completes the transaction for a lower commission than banks or money service businesses charge. In addition,

he obtains a much better exchange rate. Delivery direct to Jafar's home in the Kandahar area village is also included in the price. In fact, in certain areas of the world, hawala is advertised as "door-to-door" money remitting.

Ali gives the \$200 to the hawaladar in Your District that he wants to transfer. The hawaladar takes his small commission. Ali is not given a receipt because the entire relationship is based on trust. This is a different kind of "know your customer" (KYC) procedure. For purposes of illustration, particularly if this is a first-time transfer, Ali may be given a numerical or other code, which he can then forward to Jafar. The code is used to authenticate the transaction. But in the nature of hawala networks, codes are not always necessary. As opposed to the often-lengthy formal operating requirements of bank-to-bank transfers, this informal transaction can be completed in the time it takes for the hawaladar in Your District to make a few telephone calls or send a fax or e-mail to the corresponding hawaladar in his network that handles Kandahar.

Hawaladars maintain very few records, offering customers near anonymity. They only keep simple accounting records, and even these are often discarded after they settle-up with one another. This means the paper trail is limited or nonexistent, making transactions very difficult to track for law enforcement. Even when records are kept, they are often in a foreign language or code, making them very challenging for Western authorities to decipher.<sup>xiii</sup>

Although some transactions are arranged directly between the two hawaladars involved, many are cleared or pass through regional hawala hubs such as Dubai, Mumbai, Karachi, and Kabul. So generally speaking, money can be delivered directly to Jafar's home within 24 hours and the transaction will not be scrutinized by either U.S. or Afghan authorities.

The above scenario with Ali in Your District could just as easily take place in Minneapolis with its large Somali community, northern Virginia with its large Indian community, or Detroit with its large Arab community.

Similarly, hawala transfers are very common in London, Frankfurt, Dubai, Damascus, Baghdad, Tehran, Karachi, Zanzibar, Durban, the Colon Free Trade Zone in Panama, the Tri-Border region of South America, and many other locations around the world. For example, according to the U.S. State Department 2015 INCSR report in the West African country of Gabon, "There is a large expatriate community engaged in the oil and gas sector, the timber industry, construction, and general trade. Money and value transfer services, such as hawala, and trade-based commodity transfers are often used by these expatriates, particularly the large Lebanese community, to avoid strict controls on the repatriation of corporate profits."<sup>xiv</sup>

## **Settling Accounts**

Hawaladars eventually have to settle their accounts with each other. Frequently, the close relationships between the brokers help facilitate the settlement. Remember, the key ingredient in hawala is trust. So kinship, family and clannish ties often enable the settlement process. For

example, in Afghanistan, intermarriages between the families of hawaladars are common because they help cement confidence between the parties. Brothers, cousins, or other relations often operate in the same hawala network. Lebanese family members that operate in the same hawala networks can be found in Beirut, Dubai, the Colon Free Trade Zone, and various locations in Africa. Yet even though they may have familial or other ties, they are still in business to make money. Somebody is running a surplus and somebody a deficit. Payments go in both directions. For example, remittances may flow into South Asia from the United States and Europe but money and various goods flow back as well. Periodically, accounts must be settled. Generally, money transfers between hawaladars are not settled on a one-to-one basis but are bundled over a period of time after a series of transactions. A variety of methods are used to make payments and settle the accounts.

**Trade:** From the earliest times - before modern banking and before modern monetary instruments – trade based value transfer was used between hawala brokers to settle accounts and balance their books. The use of trade remains widespread. Settling accounts through import/export clearing is somewhat similar to bilateral clearing using bank transfers, but it uses the import/export of trade goods. That is why many import/export concerns are associated directly or indirectly with hawaladars. If a debt needs to be settled, hawaladar A could simply send goods to hawaladar B such as gold, electronics, or a myriad of other trade items. Or at the end of a reporting period, if an outstanding balance exists between hawaladar A in Somalia and hawaladar B in Dubai, B can use, for example, a Japanese bank account to purchase cars for export to Somalia. Once the cars arrive, they would be transferred to A to settle the debt and/or sell them for profit. The transaction would clear the debt between the two hawaladars.

Invoice fraud and manipulation is also widespread. To move money/value out of a country, a hawaladar or his agent will import goods at overvalued prices or export goods at undervalued prices. To move money/value in, a hawaladar or his agent will import goods at undervalued prices or export goods at overvalued prices. This type of procedure is called counter-valuation. Most other worldwide alternative remittance systems or informal value transfer networks are similarly based on trade. Historically and culturally, trade is still the preferred method of account settlement.<sup>xv</sup>

**Banks:** Most major hawala networks have access to financial institutions either directly or indirectly. A majority of international hawaladars have at least one or more accounts with formal financial institutions. Bi-lateral wire transfers between brokers to settle accounts are sometimes used. If a direct wire transfer is made between international brokers, hawaladar A would have to wire money directly to hawaladar B's account to clear a debt. This could be problematical because the banks' foreign exchange rate procedures would be triggered. So in this case, hawaladar A might choose to deposit the funds into B's foreign account.

**Cash couriers:** Direct cash payments are also used to settle debts. This is particularly true in areas of the world that have cash based economies. Sometimes overlooked is that hawala

networks also operate domestically between states and provinces. For example, in Afghanistan, hawala networks are found in each of the 34 provinces. Periodically, the brokers settle accounts and often use cash. Hawala couriers have been identified transporting money within Afghanistan and across the border into Pakistan. Cash couriers representing hawala networks also frequently travel from Karachi to Dubai to settle accounts.

**Other methods:** Over the last few years, there are indications that new payment products and services (NPPS)<sup>xvi</sup> are being added to the mix: virtual currencies and transfers, mobile payments, and other forms of person to person (P2P) money transfers.

Although open source reporting is very sparse, there is reason to believe that some underground remittance networks are now using virtual currencies, including bitcoins. For example, Indian police raided a money exchanger/hawaladar that allegedly used bitcoins.<sup>xvii</sup> Over time, the use of virtual currencies could potentially have a great impact on the hawala settlement process. Moreover, I can envision how an enterprising hawaladar will acquire bitcoins and use them not only to settle accounts between fellow brokers, but also use them as cash-out service for their clients. Cross border mobile payments network for emerging markets are currently processing air-time top-ups and money transfers in multiple currencies in real-time for duly licensed financial institutions, organizations, and merchants. And since most hawaladars have side businesses, bitcoins could also be used to purchase his product – for example, mobile phone credits.

In many areas of the world, mobile payments or M-Payments – particularly via the use of cell phones - are an increasingly popular vehicle for the remittance of wages. It is also quite possible for M-Payments to be used in the settling of accounts between underground money remitters including hawaladars.<sup>xviii</sup> M-Payments are recognized as a growing money laundering threat – particularly in areas of the world where our terrorist adversaries operate.<sup>xix</sup>

Etisalat Afghanistan, the Afghan telecommunications company, is now offering “M-Hawala.” From its website, Etisalat Afghanistan boasts that “M-Hawala is an innovative mobile financial services solution that will enable Etisalat Afghanistan’s customers to purchase airtime directly from their handsets, send money from their mobile phones to family and friends, pay their bills via their mobile phones, purchase goods and services from shops and or retail outlets and deposit or withdraw cash from Etisalat authorized M-Hawala distributors or Etisalat partner banks.”<sup>xx</sup>

Over the last few years P2P money transfers have grown exponentially. There are many domestic and global services (some are interoperable) that make it easy to transfer money from one party to another via a phone number or email. Parties can send cash from an attached digital wallet account, or a linked debit card, bank account, or credit card. It is also easy to receive money; some services offer payments in brick-and-mortar stores as well.

In many respects, the growing use of P2P could mitigate the widespread use of hawala for traditional remittance purposes. I am not aware if P2P transfers are being used in the hawala

settlement process. If it is occurring, I suspect it is happening overseas and is linked to other forms of M-Payments (see above).

Consequently, one of the challenges to law enforcement is where regulatory regimes have not kept pace with the rapidly evolving business models and payments schemes.

## **Worrisome Links**

Unfortunately, hawala is abused by terrorists. Hawala networks are used by ISIS in war-torn Syria and Iraq.<sup>xxi</sup> Hawala is used in Europe to support terror groups. For example, a network of 250 to 300 shops - such as butchers, supermarkets and phone call centers - run by mostly Pakistani brokers across Spain have supported ISIS and the al-Qaeda-affiliated Nusra Front through their hawala operations.<sup>xxii</sup> There are reports that hawala was used to help finance the 2015 ISIS attacks in Paris.<sup>xxiii</sup>

Hawala is widespread in South Asia and is heavily used by drug warlords and both the Afghan and Pakistani Taliban. Hawala networks exist in other troublesome spots where our adversaries operate such as the Horn of Africa.<sup>xxiv</sup> Hawala is “central” to Libya’s underground economy.<sup>xxv</sup>

Boko Haram’s funding is likely to withstand most restrictions on accessing the banking sector, as it uses hawala and cash couriers to move funds, some of which originates from supporters outside Nigeria.<sup>xxvi</sup>

Media reports indicate a surge in hawala funding from charity organizations in the Persian Gulf to madrassas and seminaries in the Kashmir Valley used to indoctrinate local youth.<sup>xxvii</sup>

Iran, a U.S. designated state sponsor of terror, also uses hawala —locally known as *havaleh*. The underground money transfer system has also been used to circumvent sanctions.<sup>xxviii</sup> Reportedly some financial exchanges between Iran and Pakistan are routed through hawala instead of the legal channels of the Asian Clearing Union.<sup>xxix</sup>

Iran’s merchant community makes active use of money and value transfer systems, including hawala and moneylenders. Many hawaladars and traditional bazaari are linked directly to the regional hawala hub in Dubai. Over 300,000 Iranians reside in Dubai, with approximately 8,200 Iranian-owned companies based there. The trading companies are instrumental in settling accounts between hawaladars (see above). There are reports that billions of dollars in Iranian capital have been invested in the United Arab Emirates, particularly in Dubai real estate. Iran’s real estate market is also used to launder money.<sup>xxx</sup>

The United States is not immune. Hawala has repeatedly been used to finance terror attacks against the U.S., including the 1998 bombing against our embassy in Nairobi, attacks against our troops in Afghanistan and Iraq, and the 2010 Times Square bombing in New York City.<sup>xxxi</sup> In 2013, a federal judge in San Diego sentenced three Somali immigrants for providing financial

support to al-Shabaab—a designated terrorist organization. Evidence presented during trial showed that the defendants conspired to transfer funds to Somalia via hawala to wage jihad.<sup>xxxii</sup>

Hawala is often used in other criminal activity. For example, in 2013 a naturalized U.S. citizen and his wife were indicted for medical billing fraud in Texas, and for sending the illicit proceeds to Iran via hawala.<sup>xxxiii</sup> In November, 2015, authorities in Los Angeles announced they had broken up an international hawala network with ties between Canada, India, the United States and other locations that moved millions of dollars for the Sinaloa drug cartel and other criminal groups.<sup>xxxiv</sup> And international criminal organizations from sex traffickers in Nigeria, fraudsters in Eastern Europe, to drug traffickers in Southeast Asia use hawala. Many of these criminal networks impact the U.S.

## **Countermeasures and Steps Forward**

### **Registration**

Similar to Western Union, Pay-Pal, casas de cambio, and “Mom and Pop” check cashing services, Treasury’s Financial Crimes Enforcement Network (FinCEN) classifies hawala as a money services business or MSB.

As a result, hawala and similar money transfer systems are legal as long as the operation is registered with FinCEN and meets individual state licensing requirements. Unfortunately, the regulatory response hasn’t worked. According to the 2007 National Money Laundering Strategy, “While the exact number of money service providers in the United States is difficult to determine, estimates suggest that fewer than 20 percent of MSBs are registered with FinCEN. It is not known what percentage of unregistered MSBs are exempt from registration, due for example to their low business volumes or agent status. Regardless, the result is that the vast majority of MSBs operate without direct Federal regulatory supervision.”<sup>xxxv</sup>

Hawaladars are also supposed to file Suspicious Activity Reports (SARs). I believe very few do. Should we be surprised? Hawala is based on trust. Why would a hawaladar file a suspicious activity report on an extended family, tribe, clan, or ethnic group member?

The IRS/Criminal Investigation Division has the law enforcement mandate to ensure MSB compliance. Unfortunately, due to budget cuts and manpower constraints the IRS has been unable to conduct necessary assessments or compel MSBs to register. Mandated “outreach” programs that are designed to advise informal remittance networks of their registration and reporting responsibilities have also fallen short.

Before a strategy for enhanced MSB registration can be formulated I suggest this committee request the following information from FinCEN:

1. Over the last five years, how many hawaladars, fei-chien brokers, and other similar informal remittance operators have actually registered with FinCEN? Please ask that the registration totals be listed by year.
2. Of those that have registered, how many SARs have been filed? Per year?
3. A FinCEN request should be made to the Egmont Group of Financial Intelligence Units (FIUs) to poll its international members regarding questions 1 and 2 above. For the Egmont FIUs, a precursor question will be whether or not registration is required for hawala in their jurisdiction and, if so, under what authority.
4. Request that FinCEN estimate the number of informal unregistered money remitting entities currently in operation in all 50 states.
5. For the last five years, have FinCEN and the IRS detail their “outreach” programs to ethnic communities throughout the United States regarding the obligation to register and license money remitters.
6. Ask IRS/CI what it would need in additional budget and personnel to launch an aggressive campaign that targets unregistered and unlicensed money remitters.
7. Ask the FinCEN Intelligence Group to provide, on a classified basis as required, information related to the instance of emerging payments such as bitcoin and other virtual currencies used as hawala systems or financing.
8. Request that FinCEN provide any statistics or case examples related to its 314 program regarding inquiries related to hawala and terrorist financing, on a classified bases, as required.

### **Accountability**

The U.S. government’s 2007 Inter-Departmental *National Money Laundering Strategy* report’s goal #2 is to “Enhance Financial Transparency in Money Service Businesses.” The laudable goal contains eight “action items;” most are pertinent to this hearing. I urge Congress to exercise its oversight responsibilities and determine whether or not the action items were fulfilled and hold the departments, offices, and bureaus involved responsible if they have not.

### **Examine the “back door” of Trade**

Hawaladars are most vulnerable to law enforcement, customs, and intelligence agencies when they settle accounts. As discussed above, historically and culturally, in many parts of the world settling accounts via trade-based value transfer is the preferred technique. One does not understand hawala and underground remittance systems unless one understands this concept.

Particularly in areas where our adversaries operate, examining trading records for signs of “counter-valuation” or a method of settling accounts between hawala traders could be the backdoor into their operations. Systematically cracking down on associated trade fraud could also be a boon to revenue strapped governments. (Sometimes offering the “carrot” of increased

revenues to cash-strapped governments is often more effective than the “stick” of heavy handed enforcement.)

In 2003 I proposed the creation of Trade Transparency Units or TTUs to spot trade anomalies that could be indicative of customs fraud, money laundering, or even underground financial systems such as hawala.<sup>xxxvi</sup> The concept is now part of our national anti-money laundering strategy. To date there are approximately 16 international TTUs. Many additional countries have expressed interest in joining the TTTU network. Congress should create a specific line item that funds the expansion of the U.S. TTTU to include additional dedicated personnel and advanced analytics.

Over the last few years, there has been an explosion in trade and related data. Advanced analytic programs are available. Trade anomalies can be identified such as over-and-under invoicing by making a comparison to market norms.<sup>xxxvii</sup> We could specifically risk-score the probability of informal value transfer /counter-valuation. Analytics are available to help over worked analysts and investigators prioritize trade-based money laundering (TBML)-related investigations and help with investigative decision making. For example, we can apply subjective logic analytics to the high levels of uncertainty inherent in hawala networks. Potentially models could be built to help prioritize which cases of potential TBML should be pursued.

Funds should also be provided to the U.S. TTTU and the State Department’s Bureau of International and Narcotics Affairs (INL) that will assist with the creation of additional foreign TTUs. Any funds expended will be more than made up by enhanced revenue collected by cracking down on associated customs fraud.

### **Examine Fei-Chien**

While hawala gets attention because of its links to terror finance, the Chinese equivalent fei-chien or “flying money” is undoubtedly as large and pervasive. As I outline in my book *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*,<sup>xxxviii</sup> fei-chien is ancient; it operates in the same manner as hawala; Chinese flying money is international in scope; it relies on trade to settle accounts between brokers; and while used primarily for remittances, the underground system has also been linked to criminal organizations and capital flight.

I believe flying money is used by wealthy Chinese to help purchase high-end residential real estate (including in the United States<sup>xxxix</sup>) in probable violation of China’s own capital controls. FinCEN is currently studying the purchase of high-end real estate and its links with money laundering in specific geographic areas.<sup>xxxix</sup>

Unfortunately, our law enforcement, intelligence, and regulatory communities have little knowledge or interest in fei-chien and other forms of underground Chinese remittance systems.

Open source information on fei-chien is limited and I fear there is little classified information as well. I suggest this Committee task FinCEN to develop a strategic study on the prevalence of Chinese flying money and how it impacts the United States.

### **Data and Analysis**

Since many hawaladars and similar underground financial networks often use financial institutions, advanced analytics should be employed to provide the transparency that the hidden systems seek to deny. AML/CFT compliance software could be coded to provide red-flag alerts and/or risk scoring specifically for informal remittance systems such as hawala. Diverse data sets (financial, social media, etc.) could be examined and suspicious activity indicators installed for transfers to/from suspect locations, suspect businesses, individuals on designated lists, etc. Applicable overseas data sets could be analyzed and cross-referenced against suspect remittance service providers in the United States.

The same should be done with financial institutions that deal heavily in trade finance. AML/CFT compliance software should be engineered to flag alerts for indications of trade-based money laundering which, per the above, could be the back door into underground remittance networks.

### **Inclusion**

One of the primary reasons immigrants use informal remittances is cost. As a result, the formal financial system—banks and remittance services— should improve their services and reduce charges and fees for remittances. This will attract more customers into the formal and transparent banking and remittance sectors. Lower cost structures are currently one of the major marketing features of M-payments in emerging markets.

### **Training**

In my opinion, a staggering amount of compliance officers and those involved with trade finance do not understand informal remittance systems and how to recognize them. Only with specific insight into hawala and other similar systems will AML/CFT compliance staff responsible for risk monitoring be able to properly react to flagged transactions or adjust risk exposure. Financial institutions and MSBs that are exposed to informal remittance systems and TBML should do more to provide training and assistance to staff. Training in this area should be part of AML/CFT compliance review.

I have firsthand knowledge that law enforcement personnel at the federal, state, and local levels as well as intelligence officers, regulators, analysts, etc. similarly do not understand informal remittance systems and TBML and do not know how to recognize them in their area of operations.

Even though I can demonstrate how informal remittances and TBML affects state and local law enforcement, most often the consensus opinion is, “This is a federal issue and doesn’t concern us.”

Yet it is precisely because law enforcement officers are on the front lines in their communities and know their operating environment well that they should notice if a local business or commercial activity does not make market or economic sense. For example, a normal business should not remain in operation for long with sporadic commercial activity or when consistently selling goods far above or below market norms. Numerous businesses in the U.S. and elsewhere are involved at the local level in TBML schemes and deal with goods that are frequently manipulated to transfer value. Underground remittance networks such as hawala and fei-chien are found in local communities throughout our country and they often depend on trade and local business networks.

Accordingly, I urge my state and local law enforcement colleagues to become more familiar with issues surrounding TBML and informal remittance schemes and how they affect the local community. Where appropriate, trade fraud and associated crimes should be part of their financial investigations education. The State and Local Anti-Terrorism Training (SLATT) program<sup>x1</sup> funded by the U.S. Department of Justice, Bureau of Justice Assistance (BJA) is an excellent starting point. The SLATT program is dedicated to providing specialized multiagency antiterrorism detection, investigation, and interdiction training and related services at no cost to our nation's law enforcement officers, who face the challenges presented by the terrorist and violent criminal extremist threat – including the detection of opaque underground financial systems sometimes employed by terrorists.

It is of paramount importance the SLATT program continues to be offered in the field.

***John A. Cassara is a former U.S. intelligence officer and Treasury Special Agent. More information is available at [www.JohnCassara.com](http://www.JohnCassara.com)***

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<sup>i</sup> Section 359 of the USA PATRIOT Act expanded the definition of “financial institution” to include not only a licensed sender of money but any other person who engages as a business in the transmission of funds, including any person who engages as a business in an informal money transfer system or any network of people who engage as a business in facilitating the transfer of money domestically or internationally outside the conventional financial institution system. See 31 U.S.C.5312(a)(2)(R)

<sup>ii</sup> United Nations; available online at <http://www.un.org/sustainabledevelopment/blog/2016/01/244-million-international-migrants-living-abroad-worldwide-new-un-statistics-reveal/>

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- <sup>iii</sup> The World Bank; available online at: <http://www.worldbank.org/en/news/press-release/2017/04/21/remittances-to-developing-countries-decline-for-second-consecutive-year>
- <sup>iv</sup> The World Bank; available online at: <http://www.worldbank.org/en/news/press-release/2013/10/02/developing-countries-remittances-2013-world-bank>
- <sup>v</sup> The World Bank; available online at <http://www.pewglobal.org/interactives/remittance-map/>
- <sup>vi</sup> Dilip Ratha, "Remittances, Funds for the Folks Back Home," International Monetary Fund; available online: <http://www.imf.org/external/pubs/ft/fandd/basics/remitt.htm>
- <sup>vii</sup> Leonides Buencamino and Sergei Gorbunov, "Informal Money Transfer Systems: Opportunities and Challenges for Development Finance," November, 2002, United Nations; available online: <http://www.un.org/esa/esa02dp26.pdf>
- <sup>viii</sup> Estimates vary as to how much money is pumped annually through the global hawala network but according to Gretchen Peters research in *Seeds of Terror*, St. Martins Press, 2009, p. 170, economists put the total figure at about \$100 billion per year. Others estimate hawala transfers approach \$400 billion annually; see Jack Moore, Hawala, The Ancient Banking Practice Used to Finance Terror Groups, *Newsweek*, February 24, 2015; available online at: <http://www.newsweek.com/underground-european-hawala-network-financing-middle-eastern-terror-groups-307984>. Because the global nature of the Chinese diaspora, I believe "flying money" is at least equal to or surpasses the magnitude of hawala.
- <sup>ix</sup> Chairman Evan Bayh, "Hearing on "Hawala and Underground Terrorist Financing Mechanism," November 14, 2001; available online: [https://www.banking.senate.gov/01\\_11hrg/111401/bayh.htm](https://www.banking.senate.gov/01_11hrg/111401/bayh.htm)
- <sup>x</sup> The information in this section is taken from John Cassara, *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, Wiley, 2015; see chapter on Hawala: An Alternative Remittance System, pages 49 – 69 and original references.
- <sup>xi</sup> The World Bank; available online at: <http://www.worldbank.org/en/news/press-release/2017/04/21/remittances-to-developing-countries-decline-for-second-consecutive-year>
- <sup>xii</sup> International Narcotics Strategy Report Volume II on Money Laundering, State Department, 2015, see Afghanistan country report; available online at: <https://www.state.gov/j/inl/rls/nrcrpt/2015/supplemental/239124.htm>
- <sup>xiii</sup> Financial Crimes Enforcement Network (FinCEN) # 33, March, 2003; available online at: <https://www.fincen.gov/sites/default/files/advisory/advis33.pdf>
- <sup>xiv</sup> International Narcotics Control Strategy Report, Volume II, Money Laundering, Department of State, 2015; available online at: <https://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/index.htm> See Gabon country report.
- <sup>xv</sup> Trade-based money laundering being used as counter valuation for hawala and other informal value transfer systems is described in detail in my book *Trade-Based Money Laundering*; see ix
- <sup>xvi</sup> See Guidance for a Risk-Based Approach: PREPAID CARDS, MOBILE PAYMENTS AND INTERNET-BASED PAYMENT SERVICES, Financial Action Task Force (FATF), June, 2013.
- <sup>xvii</sup> "Bitcoins May be Used by Hawala Traders: Official," The Times of India, December 29, 2013; available online (<http://timesofindia.indiatimes.com/city/ahmedabad/Bitcoin-may-be-used-by-hawala-traders-Officials/articleshow/28067184.cms>)
- <sup>xviii</sup> For an overview of Mobile Payments see John A. Cassara , Written Statement for the Hearing On "The Next Terrorist Financiers: Stopping Them before They Start" Before the Task Force to Investigate Terrorism Financing Of the House Financial Services Committee, June 23, 2016; available online at: <https://financialservices.house.gov/uploadedfiles/hrg-114-ba00-wstate-jcassara-20160623.pdf>
- <sup>xix</sup> Ibid
- <sup>xx</sup> See Etisalat press release; available online: <http://www.etisalat.af/about-us/press-releases/183-etisalat-launches-mhawala-mobile-financial-services-in-afghanistan> and the Mhawala website; <http://mhawala.af/>
- <sup>xxi</sup> See Yaya J. Fanusie and Alex Entz, "Islamic State - Financial Assessment," Foundation for the Defense of Democracies, March 2017; available online at: [http://www.defenddemocracy.org/content/uploads/documents/CSIF\\_ISIS\\_Finance.pdf](http://www.defenddemocracy.org/content/uploads/documents/CSIF_ISIS_Finance.pdf)
- <sup>xxii</sup> Jack Moore, Hawala, The Ancient Banking Practice Used to Finance Terror Groups, *Newsweek*, February 24, 2015; available online at: <http://www.newsweek.com/underground-european-hawala-network-financing-middle-eastern-terror-groups-307984>

- <sup>xxiii</sup> Rukmini Callimachi, Alissa J Rubin, Laure Fouquet, Paris attacks: terrifyingly fatal layers of resources and tactics, *The Irish Times*, March 20, 2016; available online at: <http://www.irishtimes.com/news/world/europe/paris-attacks-terrifyingly-fatal-layers-of-resources-and-tactics-1.2580749>
- <sup>xxiv</sup> See Yaya J. Fanusie and Alex Entz, "Al-Shabaab - Financial Assessment," Foundation for the Defense of Democracies, May, 2017; available online at: [http://www.defenddemocracy.org/content/uploads/documents/CSIF\\_TFBB\\_Al-Shabaab\\_v05\\_web.pdf](http://www.defenddemocracy.org/content/uploads/documents/CSIF_TFBB_Al-Shabaab_v05_web.pdf)
- <sup>xxv</sup> Yaya Fanusie and Landon Heid, *Foreign Affairs*, June 17, 2016; available online at: <https://www.forbes.com/sites/realspin/2016/06/17/what-isis-is-banking-on/#50fe1cc11651>
- <sup>xxvi</sup> See Yaya J. Fanusie and Alex Entz, "Boko Haram Financial Assessment," Foundation for the Defense of Democracies, May, 2017; available online at: [http://www.defenddemocracy.org/content/uploads/documents/CSIF\\_Boko\\_Haram.pdf](http://www.defenddemocracy.org/content/uploads/documents/CSIF_Boko_Haram.pdf) and Kathleen Caulderwood, "Fake Charities, Drug Cartels, Ransom and Extortion: Where Islamist Group Boko Haram Gets Its Cash," *International Business Times*, May 16, 2014; available online at: <http://www.ibtimes.com/fake-charities-drug-cartels-ransom-extortionwhere-islamist-group-boko-haram-gets-its-1585743>
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- <sup>xxxvi</sup> See my February 3, 2016 testimony before the Task Force to Investigate Terrorism Financing of the House Financial Services Committee available online at: <https://financialservices.house.gov/uploadedfiles/hrg-114-ba00-wstate-jcassara-20160203.pdf>; Also, see John Cassara, *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, 2016 John Wiley & Sons, Hoboken, New Jersey; see chapter 9 page 145 on "Monitoring Trade."
- <sup>xxxvii</sup> Ibid
- <sup>xxxviii</sup> Ibid, Cassara TBML; see chapter 5 on "Chinese Flying Money."
- <sup>xxxix</sup> John Cassara, "Flying money" may land in U.S. - Is Chinese money laundering "flying" into real estate?" February 21, 2016, *Banking Exchange*; available online at: <http://www.bankingexchange.com/news-feed/item/6079-flying-money-may-land-in-u-s>
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Manhattan and Miami to identify natural persons behind shell companies used to pay for high end real estate in six major metropolitan areas.

<sup>x1</sup> The Institute for Intergovernmental Research (IIR) serves as the technical service provider for ongoing training, research, and analysis services to the SLATT Program through the support of grant awards received from the Bureau of Justice Assistance. IIR supports the SLATT Program by providing project coordination activities, training assessment, and meeting coordination. See the IIR/SLATT website for additional information; ([https://www.iir.com/WhatWeDo/Criminal\\_Justice\\_Training/SLATT/](https://www.iir.com/WhatWeDo/Criminal_Justice_Training/SLATT/))