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The Malarkey of Money Transfers: Overlooking E-Bay whilst the Hawaladars are Hunted

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Abstract

Informal Money Transfer systems represent one of several persistent loopholes in the fight against the War on Terror. Terrorist groups and criminal networks continue to use the Hawala system, as well as other informal transfer systems, to escape the regulatory and administrative control of formal international banking transactions. In an age where global financial regulation is underpinned by international agreement through Basel and others, the ongoing use of IVTs in Australia is cause for increasing concern. Yet Hawala is only half of the informal equation. E-bay and its associated bedfellows outstrip Hawala transfers through the same commercial imperative that drives the modern world, simply by doing business. This paper describes the escalating risk in Australian and International money transfers, and the need for a reconsideration of the prevention strategies that conceal the support for terrorist and criminal activities.

Keywords

Hawala, Hawaladar, Informal Value Transfer, Non Government Organisations, Islamic Banking, money laundering, prevent strategy, eBay, Paypal

Since September 11th 2001, there has been a large focus on limiting the financing of terrorism as key to successful prevention of a critical event (Heng & McDonagh 2009, p.53). As former US President George Bush commented only a month later “*the first shot in the war was when we started cutting off their money, because an al-Qaeda organisation can’t function without money*” (Bush, 2001). As a result of this focus Informal Value Transfer Systems were identified as a major hole in security for any country at risk of terror attacks. What followed was a united international movement to register and regulate all informal remittance operators to mitigate the risk of a terrorist cell gaining its finances through any such system (AUSTRAC, 2009). While any informal system is at risk of being abused for the purpose of money laundering and the financing of terrorism, one of the largest and easiest money laundering systems has been overlooked to the point where, upon realisation of this major and seemingly defenceless security loophole, any informal system loses its commercial imperative.

The security weaknesses which the authors identify in this paper are not so focused on Hawala and Hundi money transfers, but instead depict a lack of attention paid to the online auction site eBay and its preferred method of payment transfer, PayPal. This paper will outline an escalating risk in Australian money transfers that incorporates a review of both Hawala-style money transfers and online mechanisms. In doing so, the need to balance the focus on Hawala against current security weaknesses with established remittance providers such as PayPal and Western Union becomes a matter for closer consideration. A balanced approach to the security of different money transfer systems requires an understanding of the manner in which both Hawala and PayPal contribute to money laundering and terrorist financing (Malkin and Elizur 2002, p61).

Informal money transfers have been repeatedly linked to the funding of terrorist attacks. The twin towers attack on September 11th saw more than \$270,000USD sent through a variety of means including formal bank transfers, Hawala remittances, and Western Union transfer branches (NCTAUS, 2004). Hawala money transfers or Hundi, as they are commonly described in Southern Asia, involve both legal and illegal mechanisms that are so opaque to financial scrutiny that Hawala is considered the black sheep of the money transfer family (Heng & McDonagh, 2009). This form of money transfer involves less cost in transfer fees because Hawaladars make many transactions in their network, without physically transferring each transaction back and forth. Instead they use a familial network of trust that remits individual amounts to users but may balance their payouts amongst fellow Hawaladars with far less frequency (Levi, 2007).

In the modern Western context Hawala is considered less legitimate than Western banking and transfer systems. Historically, Hawala is closely aligned with transactions that are of middle-Eastern and south Asian origin. Many of the regular tithes and charity donations that are prescribed as part of the Muslim faith are sent via a Hawala transaction. Again, Hawala transfers have been linked to terrorist operations, and as a result the act of donating money for a charitable purpose has come under fire as an easy way to disguise transfers of large sums under the

mask of international aid (Heng & McDonagh 2009, Navias 2002). Yet by comparison with Western transfer constructs such as PayPal, Hawala transactions receive far more discredit and mistrust than their western counterparts. This is an interesting phenomenon, since many well-known and well documented terrorist attacks use money laundering and transfer systems other than or in addition to Hawala systems (Acharya 2009, AUSTRAC, 2007).

INFORMAL VALUE TRANSFER SYSTEMS

Informal Value Transfer Systems come in many different forms from many different cultures. Such systems include the Chinese 'Flying Money', the Sanskrit based 'Hundi' which means collect, and the Arabic 'Hawala' which means change or transform and trust (Perkel, 2004). The most recognised of these systems is the Arabic Hawala system which came to notoriety after the attacks of September 11, 2001 and the shutdown of al-Barakaat due to allegations of terrorism financing (Passas, 2006). These remittance systems were originally created and used due to a lack of any formal banking avenues with which to conduct business. As a result of this the use of IVT's has become traditional and is still used today. Wide spread use of IVT's is especially prevalent in countries that are in or recovering from conflict, suffer from a weak banking system, political corruption, and usually have a history of funding terrorism (Sharma, 2006).

Systems such as Hawala are very susceptible to criminal abuse due to their informal nature. The most prominent abuse is the laundering of money which can occur through the use of these systems in two ways, as a result of the primary function of the system (by the customer), and in order to settle accounts between operators (Razavy, 2005, Maimbo, 2003). The primary function of a Hawaladar is to allow access to funds from a trusted colleague or family member, i.e. another Hawaladar, in another country or town by accepting the funds from a member of the public. The transfer is facilitated through a phone call, email, or text message to the other operator but no funds are physically transferred (Perkel, 2004). Any outstanding debts between operators are settled at different intervals depending on the difference, e.g. a larger debt may be settled on the day or within a week, but smaller differences are usually settled every month. Settling accounts can occur through a number of different avenues yet two are the most prominent, through trade, and through formal banking avenues via satellite (Maimbo, 2003). It is the settlement through trade that constitutes money laundering and it appears to be common for the formal system to be used as a precursor to settling through trade in other countries, as opposed to direct transaction of money which incurs a transaction fee (Maimbo, 2003, Ballard, 2005, Razavy, 2005).

Within Australia, the government response to informal money transfers has crossed several key milestones in mitigating the movement of funds likely to be used for either money laundering or terrorist funded activities. AUSTRAC has systematically blanketed a 'Know Your Customer' (KYC) policy (AUSTRAC, 2009) over those involved in any kind of remittance services as well as monitoring those working in the area of Bearer Negotiable Instruments (AUSTRAC, 2008). In December 2006 the agency stepped up its requirements for electronic funds transfers including non-reportable fund transfers of small amounts. In June 2007 it institutionalised a system of AML/CTF Compliance reporting, and by December of the same year had embedded customer identification programs across all known transfer systems. These have built onto the FTR Act of 1988 and now include the reporting of suspicious transaction reports (SUSTRs), Wire Transfers (IFTIs), and significant cash transactions (SCTRs), (AUSTRAC, 2007).

Yet the notion of money laundering through the practice of over invoicing, under-invoicing and the use of eBay and PayPal for goods noted as sold but never actually sent, remains almost impossible to regulate. Within this context, the focus on Hawaladars over and above the focus on the substantially larger volume of known eBay/PayPal dealings indicates a rather large elephant in the room (AGD, 2010). The Australian Federal Minister for Home and Justice announced in April 2010 the intention to strengthen the reporting and identification for remittance providers, including a closer scrutiny of the familial networks that underpin both Asian and Middle-Eastern informal transfer arrangements (ibid, 2010). This strengthening of reporting still fails to prevent eBay transactions for fake goods that are sold for large sums in order to fund terrorism (Daily Mail, 2006). The issue of whether the goods sold are not genuine or whether the goods are even sent at all is irrelevant. The current Australian Government regulations have no verification method to determine any aspect of the arrival or acceptance of goods. Whilst AUSTRAC can determine that a cash amount has been transferred, it cannot determine acceptance or validity of goods sent in consideration for each remittance.

The sale of goods through informal means or by mechanisms that encourage online shopping to a global audience is not exclusively the domain of eBay. However eBay's dominance of the online shopping market, and its ownership of money transfer systems like PayPal, make it a likely target for money launderers who effectively become amateur remitting agents for the duration of each sale (eBay, 2009). eBay is quick to explain that they do not act as financial

agents or remitting agents, yet their transfer arm PayPal clearly operates as an enabler for hundreds of thousands of buyers and sellers for exactly the purpose of remitting payments. Whilst this activity is broadly overlooked as too difficult to monitor, agencies such as Australia's AUSTRAC are increasingly demanding more identification and reporting metrics about each individual remitter who uses a transfer system like Western Union (AUSTRAC 2009). PayPal appears to escape the same scrutiny because either the amounts are too insignificant or the transaction claims some sort of legitimacy based on the pretext of a sale of 'goods' that can be identified through the formalised system of trading known as eBay.

Despite the reinforced attention on remittance providers, the inability to classify individuals within the broader context of using eBay and PayPal transactions as remittance providers has two effects. Firstly, the increased reporting for remittance providers makes the informal remitting agents in shops increasingly divide into two camps. In one camp resides agents such as Australia Post with highly procedural and robust internally regulated methods for dealing with money transfers, and in the other camp sit ad hoc businesses whose main commercial activity might be fast food, late night grocery supplies, or small ethnically focused travel services. For these businesses in the second camp the opportunities to offer both regulated transfers as agents for Western Union and the possibility to assist a customer using a familial-based networked informal transfer such as Hawala must present a difficult decision. Secondly, as this renewed focus by AUSTRAC pursues registered remitters, the number of people likely to shift to money laundering through multiple disguised purchases on eBay and then PayPal is likely to increase (AUSTRAC, 2009).

FEAR OF TERMINOLOGY

As mentioned previously, Hawala has been identified as a priority target for counter terrorism financing (CTF) action which has manifestly produced an international movement to regulate Hawaladars (Borgers, 2009). As a result of this international push Hawala has become a pejorative term, shifting from its previous position of legitimacy to one of alignment with terrorist threat, criminal activity, or underhanded dealings. The central reasons for at least some of this perception are; that Hawaladars do not keep records in the same way that banks and other money agencies, the familial network of trust between international and interregional Hawaladars keeps records in private, and quite often notations are destroyed after debts are settled (Razavy, 2005).

The Hawala link to terrorism has developed a certain global notoriety that has travelled right down to alternative remittance operators. This effect has been repeatedly demonstrated to the authors when casually enquiring about Hawala at money transfer businesses in the Perth metropolitan area. When quizzed as to how their money transfer service operates and whether it is anything like a Hawala system, most shop vendors' immediate reaction was that of apprehension and nervousness. They generally stated that they thought Hawala was illegal in Australia and that they know nothing about it, all the while presenting verbal and physical signs of reluctance and hesitation to continue discussion on the matter. These anecdotal observations are merely part of the motivational pretext for some of the inquiry that is pursued within this paper. The need for a more empirically rigorous investigation into street vendors who might purport to offer informal money transfers is certainly acknowledged by the authors and forms one of the key conclusions at the end of this paper. Nevertheless, there is alternate empirical evidence in the market depicting various informal money transfer offerings that suggest that whilst Hawala (and its various aliases) operates beneath the formalised catchment of most financial regulation in Australia, it does so in concert with other remittance pathways. In the case of ethnic publications in print and online, the sample listed below in table 1 shows the placement of Hawala and Western Union advertisements alongside each other, and in some cases operating within the confines of the same business shop front.

HAWALA IN THE MARKET

At first glance, the existence of informal money transfers appears virtually non-existent in Australia. There is only one single entry for an advertised Hawala dealer in the Australian Yellow Pages (Sensis, 2010) and no formal online advertising for their existence in Australia. In contrast there are 20 advertised main offices for Western Union in the Yellow Pages and more than 5000 Western Union agents actively operating in Australia (Western Union, 2010), any of which could trade in an item (or pretend) and transfer money, and globally there are 70 million active PayPal accounts (Parliament of Australia, 2009). Advertising for money transfers, other than formal services such as Western Union, only shows up in foreign shops and markets operating in small precincts and cultural ghettos. There are some mentions inside ethnic magazines printed in Australia such as the Middle East Times (Kuwait), Indomedia (Indonesia), and the Punjab Express (India) that all refer to money transfer businesses (Community Relations Commission, 2010). All of these put forward telephone numbers and none mention websites or in-print information relating to their business. They remain informal inasmuch as their information requires either face to face exchange based upon telephone contact and referral.

Formal advertising remains low, whilst word of mouth is the principal method of marketing amongst Hawala agencies. Hawala business takes place by way of person to person contact. Michael Sanders' (2007, p. 792) account of an American hawaladar working part time as a taxi driver in Washington is a useful descriptor for the informal backgrounds that Hawaladars live by in Western nations such as the US, Australia and the UK. In these countries there are typically no shops and no signage depicting the term 'Hawala'. Instead Hawaladars are blended into the background, forming adjuncts to seemingly more legitimate shops and enterprises such as delicatessens, cafes and bookshops (Rees, 2010). Yet despite this subterranean system that cloaks the informal movements of cash, there is a convergence of sorts between these informal Hawala operations and the more institutionalised end of money transfers as deployed by Western Union. Whilst the mainstream advertising pathways of Australian media seem devoid from informal money transfer advertising, and seem only to focus on Western Union, the ethnic media papers of Australia reveal a different story. Taking the newspaper listing from the Community Relations Commission of New South Wales and examining each online newspaper, the authors discovered a total of 45 money transfer advertisements. Of these 29 % were for Western Union. The remainder was of a less formal nature insomuch as the advertisements included money transfers among a range of other non-financial services from a single vendor such as groceries, travel services and fast food (Community Relations Commission, 2010). Table 1 depicts the various money transfer agents that choose to advertise their wares through ethnic media within Australia.

Table 1: Advertising of Remittance Services by Agents through Ethnic Media Publications in Australia.

Name of Media Publication	Country / Region of Origin	Total Number of Money Transfer advertisers	Number Acting as agents for Western Union
The Middle East Times	Middle East	14	5
The Daily Chinese Herald	China	2	0
Beyond India Monthly	India	4	1
Bharat Times	India	3	1
Gujarat Times	India	1	0
Indian Sub-Continent Times	India	3	1
Masala Newslite	India	2	1
The Indian Online Edition	India	2	0
Indomedia	Indonesia	4	1
Indopost	Indonesia	2	1
Cheers (Ikyu Press)	Japan	2	1
Top Media	Korea	3	0
Hamaray Rang	Pakistan	3	1
TOTAL		45	13

Source: Community Relations Commission 2010. List of Ethnic Publications

The close grouping in ethnic publications of both Hawala-style transfers and formalized remittance systems such as Western Union in Australia suggests that decisions about what type of transfer system takes place vary according to each customer and the perceived risk of a transaction. At the informal adjunct end of the money transfer market remitters will still look to Hawala-style transfers if they perceive there is no risk of prosecution. By contrast, Post Offices in Australia will always default to their institutionalized alliance with Western Union and will follow accepted mechanisms of reporting and identification to ensure compliance with AUSTRAC requirements.

No necessity for formal banking or finance qualifications

In Australia it is necessary for professions such as lenders, financiers, accountants, and nurses to adhere to certain standards of qualification. For example in order to be considered an accountant it is necessary to complete a three year undergraduate degree at least (MIT, 2010). Similarly to be a nurse and do the tasks a nurse is generally responsible for you must have completed at least a three year Bachelor of Science in Nursing (ECU, 2010).

Therefore without these qualifications you are unable to legally undertake such employment without proper experience and recognition. So despite there being some notional adherence to Sharia governance and upstanding / honorable recognition within the Muslim community, (peer, word of mouth, and or blood relations), the same devotion to western standards and formal regulatory qualifications appears absent from those who act as Hawaladars. But even with a standard of operation, there has still been a realization of increased risk as stated by the alternative remittance company Western Union. In their 2010 annual investors report Western Union executives note that they are beginning to realise the increased risk they are exposing themselves to by allowing their agents to operate franchises without any formal qualifications (Western Union, 2010).

Hawaladars are not compelled to show any specific financial qualifications. Hawala operates under two important umbrellas. The first is that Hawaladars build up trust with other Hawaladars over time and through repeated transactions so that a bond of trust grows. Hawala account keeping is based upon shared trust rather than financially regulated record keeping. The cement that bonds the numerous Hawaladars in to a trusted exchange network is usually, or at least partly, based upon familial connections. Relatives or members of one's extended family ensure that trust is kept at the highest level, and within the social codes of each Islamic community (El-Qorchi, 2002). The second umbrella is that Hawala operates according to Sharia principles. In this sense Hawala is closely aligned with formalized versions of Islamic Banking because it undertakes to prohibit usury and financial risk, or be used for investments pertaining to non-Islamic vices such as alcohol, pornography or gambling (Khosrokhavar, 2009). The Australian Government requires no formal training or qualifications for an individual or business to operate in the area of remittances and money transfers, but does insist that each remitting party is registered and complies with the existing regulations regarding record keeping and identification of clients (AUSTRAC, 2009).

The shift towards larger sums of money

What has for many years been depicted as low-level financial activity that allows for the remote payment of Zakat, Islamic charity, and alms donation, now appears to facilitate the transfer of vast sums of money by NGO's for disaster relief and humanitarian aid. According to Ballard (2003), the global scale of money transferred is approximately \$100,000 million per year, 60% of which flows into third world countries. It is also suggested that this number could be underestimated by thousands of millions of dollars because many countries are incapable of making accurate estimations about the informal/formal economic activity in their state. Maimbo (2003), states that humanitarian aid and business transactions flowing from international sources into Afghanistan through Hawala range from thousands up into the tens of millions to the point where Afghanistan's whole economy is reliant on Hawala as its banking system. However large transfers are not restricted to conflict recovery or international business, in fact it is quite common for Non-Government Organisations to use informal networks like Hawala to allow access to aid funds for countries recovering from natural disasters due a loss of formal remittance avenues (Weiss-Fagen & Bump, 2005).

It is clear that Hawala has morphed beyond the realms of mere Islamic charity and Zakat. This is reinforced by the estimated level of remittances via IVT's globally, the complete economic dependence on Hawala in Afghanistan, the extent to which NGO's make use of Hawala and its relative systems following disasters in order to allow access to humanitarian aid when formal systems have failed, and the ease with which these systems are criminally abused (Ballard, 2003, Maimbo, 2003, Weiss-Fagen & Bump, 2005, Rees, 2010)

At the other end of VT formalities, PayPal is keen to attract new transactional business amongst NGOs. Drawn by the sheer volume of remittances, and the opportunity to enter into new market segments that are dominated by Hawala, PayPal has developed a sister system called Webnow. This system is an offshoot of PayPal's Blackbaud (2009), and is a remittance system and website combined into one unit so that NGOs can create a simple online transaction system that is tailored for charities and NGOs so that it operates largely above the transnational fees and charges of most IVTs. PayPal has recently (2009) moved to secure an EU (enforceable undertaking) with AUSTRAC to ensure greater scrutiny with PayPal transactions. The key problem with this is that it targets the seller and not the buyer. In a system where the possibility exists that goods never end up being sent, scrutiny of a seller where the seller has established his or her legitimacy, (via means of multiple transactions and safe trading history), is unlikely to deter future transactions where the buyer is sending the money. PayPal currently has no system for scrutiny of ad hoc purchasing arrangements, except those transactions that are of such large amounts that they trigger preset limits.

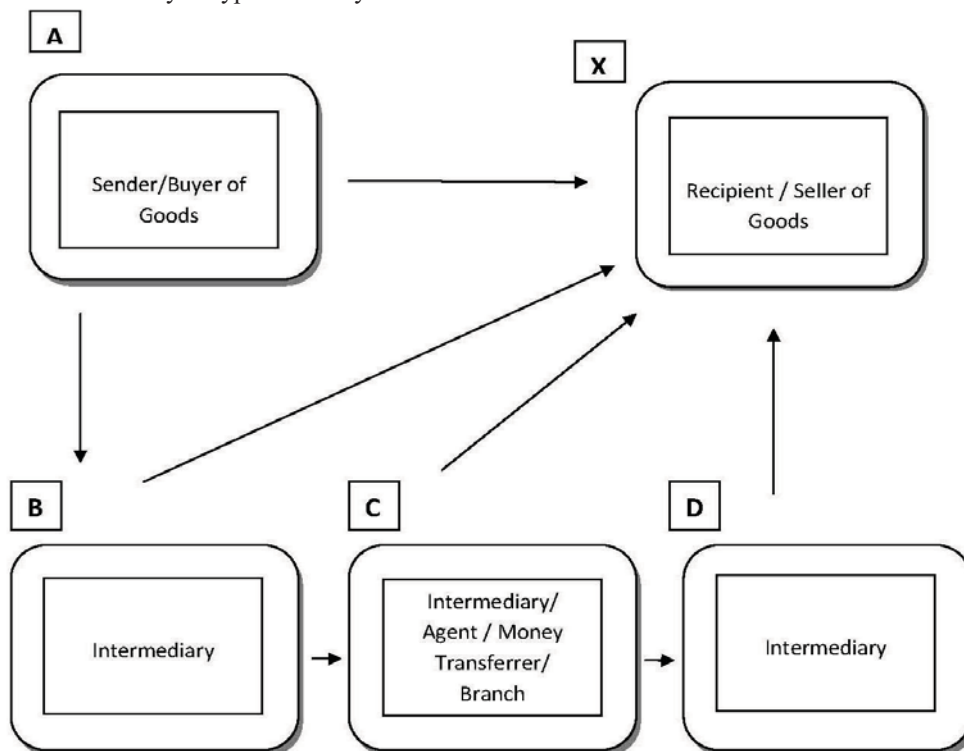
Hawala is likely to retain a firm foothold in countries where sophisticated financial infrastructure is reduced. In Iraq, for example, the institutional banking system does not allow for the transfer of monies. In places where there is less trust in the banking system, Hawala thrives (Altman, 2006). The growth of Islamic banking in general, coupled with

the additional security of Islamic financial institutions and the commitment to Islamic banking secrecy and confidentiality, ensures the continued expansion of Islamic funds management.

The flow of money

Regardless of whether describing a Hawala transfer, an eBay/PayPal remittance, or a Western Union transaction, the flow of money between actors can take a variety of paths. In any of these cases, and particularly with respect to eBay / PayPal transactions, there is no formal mechanism for determining whether goods are dispatched or are authentic. Genuine buyers have a mechanism for complaining, however non-genuine purchasers may pretend to receive goods (or pretend to receive goods of a certain value), in order to effect the passage of funds in a normal manner. The sheer volume of transactions and the global reach of eBay and PayPal make this vulnerability one which is persistent as long as buyers remain free from the same scrutiny leveled at IVT agencies like Western Union.

Figure 1: The Flow of Money in typical IVT systems.



Fundamental Transfer Pathways	
A to X	Physical transfer of goods and or cash, gift giving
A to B to X	Courier, e-Payment, credit card use, charity donation
A – B – C - X	Hawala and other IVTS, wire remitters, eBay/PayPal, Western Union Transfer
A – B – C – D - X	Trade Diversion, Sophisticated Hawala, complex informal AND formal transfer

Multiple layers of "C" are possible and probable
Note that 'C' the Intermediary could take on a number of roles (possibly at the same time). Possible Trader, possible travel agent, possible import/export agent, possible money transmitter, possible branch / agency.

Source: Passas 2005 p 24.

CONCLUSION

Hawala transfers can still be exploited for the funding of terrorist organisations across international borders and without institutionalised regulation at either end of the contract. Yet in a complex global system of countless transactions the use of PayPal and eBay should share a commensurate amount of attention with other IVTs. The

effort of AUSTRAC in Australia to institutionalise PayPal is commendable but largely ineffective against terrorist laundering tactics where money is sent but no goods are transferred.

Concentrating on Hawala, whilst only glancing at eBay and PayPal is a dangerous misallocation of resources. Whilst Hawala is undoubtedly more ethnically embedded in the broad global dispersion of al-Qaeda terrorist cells, one must not overlook al-Qaeda's persistent penchant for using Western mechanisms, Western systems, and Western objects to symbolically underpin their terrorist operations. PayPal and eBay are earmarked as controlled environments for counter terrorist purposes. Yet given the 'Goliath' status of eBay and PayPal in the global sense, and the recurring ease with which PayPal users can send money worldwide, the notion that terrorists can transfer money in exchange for ordinary goods that may or may not exist remains a colossal threat that dwarfs most others.

This paper has outlined the differences and similarities between a range of IVTs to raise the issue of neglected threats from eBay and PayPal. The existing 'prevent' strategies deployed by the Australian Government through AUSTRAC and other agencies are successful in registering and collecting information about informal remittance providers. Yet whether it is Western Union, Hawala, or PayPal, the over-riding concern is that all three of these systems represent the 'bread and butter' of informal cash movements. Where one becomes difficult the other becomes popular. Al-Qaeda has demonstrated on repeated occasions that it can use all of these systems for funding its operations. Where banking sophistication is low, IVTs turn to Hawala-based systems. Where internet becomes reliable, PayPal takes the prominent role. Where operational complexity demands widespread secrecy, all three become the front-runners of an IVT 'mash up' (Medea Group, 2007). Using a combination of IVTs requires a layered approach to security.

Until eBay and PayPal are treated with the same intense scrutiny as other IVTs, there will always be a hole through which money laundering and terrorist financing will be able to operate. The 'Know Your Client' (KYC) strategy of international banking, the adherence to enforceable undertakings, and the registration and information gathering of IVT remittance operators is enormously important in the fight against money laundering and terrorist financing. However a holistic view needs greater emphasis on the registration, training and education of all remittance providers. With informal IVT remitters there are two groups that are major participants in transfer systems, yet remain largely invisible. The typical Western Union agent operating from "Mandy's Late Night Snack Bar and Kebabs" might also arrange Hawala transfers on the side. In truth she needs no formal training for either. Until governments move past registration into the requirement for educational qualifications the proliferation of IVT illegal transfers will continue to grow. Mandy might make tasty halal kebabs, but she could also enable better financial practices to emerge from under the counter.

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