



# **Financial Action Task Force (FATF) Standards Related to Hawala and other types of Remittance Systems**



## **Third International Conference on Hawala**

*Abu Dhabi, 2 April 2005*



Valerie SCHILLING  
Administrator  
FATF Secretariat

# What is the Financial Action Task Force (FATF)

## ◆ Mission:

- Establish international standards to combat money laundering and (since 2001) terrorist financing
- Assess compliance with those standards
- Study methods and techniques of money laundering and terrorist financing

# FATF Standards

- ◆ FATF Forty Recommendations (2003)
- ◆ Nine Special Recommendations on Terrorist Financing (*issued 2001; amended 2004*)
- ◆ Interpretative Notes
  
- ◆ Overall objective of FATF Standards:  
Protection of the world-wide financial system from misuse by organised crime and by terrorist financiers



# Reason for Concern

- ◆ Money Launderers:
  - Hawala and other types of remittance systems have been exploited by drug traffickers, people smugglers, illicit arms traffickers and tax evaders.
- ◆ Terrorist Financiers:
  - Terrorist incidents have been financed by funds sent through hawala and other types of remittance systems.



# **FATF Response: FATF Standards on Hawala and other types of Remittance Systems**



- ◆ Special Recommendation VI—Alternative Remittance (SR VI) (October 2001)
- ◆ Interpretative Note to SR VI (February 2003)

# Objective of Special Recommendation VI

- ◆ Increase the transparency of payment flows by ensuring consistent anti-money laundering (AML) / counter-terrorist financing (CFT) measures apply to all forms of remittance services (including hawala), particularly those currently operating outside of the conventional financial sector.

# SR VI: Interpretative Note

## Core elements identified

- ◆ Hawaladars should be:
  - Registered or licenced
  - Subject to applicable FATF Recommendations (R. 4-11, 13-15, 21-23, and SR VII).
- ◆ Countries should:
  - Establish systems to monitor hawaladars for compliance with FATF standards
  - Be able to impose sanctions on hawaladars for non-compliance.

## **SR VI: Interpretative Note**

### **Core elements explained:**

### **Registration or Licensing**

- ◆ Hawaladars should be registered or licensed.
- ◆ What is registration?
  - A requirement on hawaladars to register with or declare their existence to a designated authority to legally operate.
- ◆ What is licensing?
  - A requirement on hawaladars to obtain permission from a designated authority to legally operate.



## **SR VI: Interpretative Note**

### **Core elements explained:**

### **Registration or Licensing continued**

- ◆ Agents of hawala operators should also be registered or licensed:
  - At a minimum, the hawala operator should keep a current list of agents that is available to the competent authorities.
- ◆ Objective of the registration or licensing requirement:
  - Ensure that both the regulatory and competent authorities are aware of the existence of the hawaladar (i.e. the authorities have identified the hawala business, the hawala operator and all agents).

# **SR VI: Interpretative Note**

## **Core elements explained:**

### **Application of FATF Recommendations**


- ◆ Hawaladars should be subject to applicable FATF Recommendations:
  - Customer identification
  - Record keeping
  - Suspicious transaction reporting.
  
- ◆ Objective of this approach:
  - Ensure that all hawaladars are subject to certain minimum legal and regulatory requirements in accordance with the FATF Recommendations.



## **SR VI: Interpretative Note**

### **Core elements explained:**

### **Customer Identification**



- ◆ Hawaladars should be required to identify their customers.
- ◆ Rationale for this approach:
  - Customer identification requirements in the formal financial sector have had a deterrent effect, causing a shift in money laundering activities to other sectors.

# SR VI: Interpretative Note

## Core elements explained:

### Record keeping

- ◆ Hawaladars should be required to keep records:
  - Customer name;
  - Unique account/reference number that identifies the transaction; and
  - One of the following pieces of information about the customer:
    - Address;
    - Date and place of birth;
    - National identity number; or
    - Customer identification number
- ◆ Rationale for this approach:
  - To successfully investigate cases of money laundering and terrorist financing, investigative agencies need to be able to retrace transactions and to identify the people effecting them.

## **SR VI: Interpretative Note**

### **Core elements explained:**

### **Suspicious transaction reporting**

- ◆ Hawaladars should be required to report any suspicious transaction.
- ◆ Rationale for this approach:
  - Obligating hawaladars to report transactions that they suspect may be related to money laundering/terrorist financing is consistent with the obligations imposed on other financial institutions (i.e. to make a report when they suspect one of these crimes).

## **SR VI: Interpretative Note**

### **Core elements explained:**

### **Compliance Monitoring**

- ◆ Countries should be required to monitor hawaladars and ensure their compliance with the requirements to:
  - Register or license
  - Maintain a list of agents
  - Comply with the applicable FATF Recommendations
- ◆ Rationale for this approach:
  - Regulatory authorities should monitor the hawala sector with a view to preventing and stopping criminal and terrorist groups from exploiting the services of hawaladars.

## **SR VI: Interpretative Note**

### **Core elements explained:**

### **Sanctions**

- ◆ Countries should be able to sanction hawaladars who:
  - Do not register or license
  - Do not comply with the FATF Recommendations.
  
- ◆ Rationale for this approach:
  - In designing an effective system that improves the transparency of halawa systems (in accordance with the FATF Recommendations), countries should have sanctions available for non-compliance.



# **SR VI: Best Practices Paper Suggestions for implementation**



- ◆ Licensing and registration
- ◆ Identification and awareness raising
- ◆ Application of key AML/CFT standards
  - Customer identification
  - Record keeping requirement
  - Suspicious transaction reporting
- ◆ Compliance monitoring
- ◆ Sanctions



# Methodology

## Criteria for assessing compliance with Special Recommendation VI

- ◆ Hawaladars are required to:
  - Be registered or licensed
  - Maintain a list of their agents
  - Comply with the applicable FATF Recommendations (4-11, 13-15, 21-23, and SR VII).
- ◆ Country is required to:
  - Designate an authority to register or license hawaladars and maintain a list of them
  - Monitor hawaladars and ensure that they comply with the FATF Recommendations
  - Be able to sanction hawaladars for non-compliance.

# Challenges in Implementing SR VI

- ◆ One size does not fit all
- ◆ Must still ensure consistency of application:
  - Nationally — ensure level playing field
  - Internationally — avoid becoming “weak link”
- ◆ Focus on objective of increased transparency:
  - Ensure records on transactions and customers exist
  - Ensure that these are available to competent authorities
- ◆ Seek other measures (e.g. economic incentives)

# Follow-up by the FATF

- ◆ Typologies work:
  - Team working on issues relating to hawala and other remittance services (expect to publish results in June 2005).
- ◆ Mutual evaluations:
  - Will continue to look at the implementation of SR VI along with other measures.
- ◆ Possible further refinement of FATF guidance relating to SR VI may be issued in 2006.

## For further information

- ◆ FATF Website: [www.fatf-gafi.org](http://www.fatf-gafi.org)
- ◆ Valerie SCHILLING  
Administrator  
FATF Secretariat  
E-mail: [Valerie.Schilling@fatf-gafi.org](mailto:Valerie.Schilling@fatf-gafi.org)

Thank you for your attention.

