



Australian Government
Australian Institute of Criminology

Money laundering and terrorism financing risks posed by alternative remittance in Australia

David Rees

AIC Reports
Research and
Public Policy Series

106

Money laundering and terrorism financing risks posed by alternative remittance in Australia

David Rees

AIC Reports
Research and
Public Policy Series

106

www.aic.gov.au



© Australian Institute of Criminology 2010

ISSN 1836-2060 (Print)

1836-2079 (Online)

ISBN 978 1 921532 53 5 (Print)

978 1 921532 54 2 (Online)

Apart from any fair dealing for the purpose of private study, research, criticism or review, as permitted under the *Copyright Act 1968* (Cth), no part of this publication may in any form or by any means (electronic, mechanical, microcopying, photocopying, recording or otherwise) be reproduced, stored in a retrieval system or transmitted without prior written permission. Inquiries should be addressed to the publisher.

Project no. 0140

Ethics approval no. P0127

Published by the Australian Institute of Criminology

GPO Box 2944

Canberra ACT 2601

Tel: (02) 6260 9200

Fax: (02) 6260 9299

Email: front.desk@aic.gov.au

Website: <http://www.aic.gov.au>

Please note: minor revisions are occasionally made to publications after release. The online versions available on the AIC website will always include any revisions.

Disclaimer: This research report does not necessarily reflect the policy position of the Australian Government.

Edited and typeset by the Australian Institute of Criminology

A full list of publications in the AIC Reports series can be found on the Australian Institute of Criminology website at <http://www.aic.gov.au>

Foreword

People and businesses wishing to transfer money between themselves can do so in a variety of ways. In addition to using simple cash transactions, most money transfers in Western societies take place using conventional banks and other financial institutions. Apart from ordinary banking, however, money and other forms of value can be transferred through the use of so-called 'remittance services' which have operated for hundreds of years in non-Western societies. Originating in southeast Asia and India, users of these systems transfer funds through the use of agents who enter into agreements with each other to receive money from people in one country (such as overseas workers) and to pay money to specified relatives or friends in other countries without having to rely on conventional banking arrangements. Funds can be moved quickly, cheaply and securely between locations that often don't have established banking networks or modern forms of electronic funds transfers available.

The events of 11 September 2001 led to increased interest in ensuring that all sectors of the financial system are not misused either by criminal or terrorist groups. This heightened awareness of how terrorist activities are financed, has led governments in developed countries to enact legislation designed to monitor large-scale and suspicious financial transactions which could be indicative of money laundering activities or raising funds to finance terrorist activities. In Australia, the *Anti-money Laundering and Counter-terrorism Financing Act 2006* (Cth) requires not only banks and other financial services providers but also providers of alternative remittance services to report specified transactions to Australia's regulator, the Financial Transaction Reports and Analysis Centre (AUSTRAC). Those who provide remittance services are also required to register with AUSTRAC before designated remittance services can be provided.

Although remittance systems are legitimate and legal in many countries, concerns have arisen in recent years that they could be used to circumvent anti-money laundering and counter-terrorism financing controls that now operate across the global financial services sector. Particular risks arise from the irregular forms of record-keeping which are often employed and the possibility that the laws of those countries in which they operate may not be fully complied with.

In 2007, the Australian Institute of Criminology (AIC) commenced a number of research activities into how money laundering and the financing of terrorism occur, how the risk environment is changing and how best to regulate financial transactions so as to minimise risks of abuse. One of the areas studied concerned alternative remittance transactions. The present report provides the results of a lengthy, multi-method study that sought to identify the characteristics of alternative remittance businesses in Australia, the risks they pose and some of the current responses to those risks.

Through consultation with providers and users of remittance services, as well as regulators and law enforcement agencies, the AIC has compiled a comprehensive body of information that will assist in tailoring the regulatory regime in Australia to the nature and extent of the risks of misuse that exist. It is important to achieve a balance between regulating the remittance sector in an attempt to reduce the flow of illicit funds and permitting its continued use as a legitimate, alternative to the conventional banking system—especially for those in less-developed countries. Remittance systems provide many ethnic communities with the ability to send money and/or goods back to their country of origin, usually to their families who remain there, who may be dependent on receipt of such transfers. Remittance systems are also used for a variety of other commercial and social reasons.

Although the study has found only limited evidence of misuse, risks do exist that governments need to understand and respond to. Those in the communities that make use of and provide remittance systems also need to be aware of the potential for abuse and be able to identify high-risk circumstances that should be guarded against and reported officially. This report provides detailed information drawn from those in the Somali, Samoan, Vietnamese, Indian and Filipino

communities who have an intimate knowledge of how remittance systems operate. The analysis will assist policy makers in ensuring that this important form of financial service continues to be provided in a way that does not facilitate the laundering of the proceeds of crime or enable terrorist activities to be supported financially.

Adam Tomison
Director

Contents

iii	Foreword	
vii	Acknowledgements	
viii	Acronyms	
xi	Executive summary	
1	Introduction	
2	The aims of the report	
3	Scope of report	
3	Definitions	
9	Methodology	
13	The nature and use of alternative remittance systems	
13	Context and historical background	
14	Prior research	
20	Types of systems currently in use	
22	Extent of usage overseas—number and value of transactions	
24	Comparative costs	
24	Conclusion	
26	The Australian experience of alternative remittance services	
26	Number and value of transactions	
27	The size and frequency of remittance transactions—communities' views	
28	Reasons for using remittance in Australia	
30	The advantages of ethnic-based remittance	
34	The decision-making process	
36	How the alternative remittance service process works—the user perspective	
38	How the alternative remittance service process works—the provider perspective	
44	The identity and motivations of remitters	
45	Community perceptions of the risks associated with remittance	
47	The advertisement of alternative remittance services	
48	Provider perceptions of current trends in the remittance industry	
48	Conclusion	
50	Illegal use of alternative remittance systems	
51	International typologies	
52	Australia	
54	United States	
56	United Kingdom	
57	Taiwan	
57	Trade-based money laundering	
58	Vulnerabilities of Australian alternative remittance systems	
58	Displacement	
59	Conclusion	
61	The regulatory response	
64	Regulation in Australia	
66	Attitudes towards Australian regulation—results of consultations	
71	Legislation and regulations in overseas jurisdictions	
78	Comparison of regulatory regimes	
79	The costs of regulation	
80	Conclusion	
84	Strategies to enhance compliance	
84	The community perspective	
85	The alternative remittance service provider perspective	

86	Community and provider comments regarding future regulatory directions
86	The role of communities in regulating alternative remittance services
87	Government initiatives
89	Potential directions for future research
91	References
97	Appendix A
99	Appendix B

Figures

5	Figure 1: A simple variant of ARS
21	Figure 2: ARS providers
21	Figure 3: ARS complicated variant no 1
22	Figure 4 ARS complicated version no 2

Tables

5	Table 1: Colloquial terms for ARS
25	Table 2: Comparative costs and transaction time in connection with a money transfer between Australia and Vietnam
37	Table 4: Summary of typical ARS transaction from a user perspective
39	Table 5: Summary of typical ARS transaction, provider perspective—Indian, Samoan and Vietnamese communities
41	Table 6: Summary of typical ARS transaction, provider perspective—Somali and Filipino communities
72	Table 7: Overseas jurisdictions regulatory arrangements for ARS
73	Table 8: US prosecutions of unlicensed MSB operators 2004

Acknowledgements

The author wishes to thank the Australian Transaction Reports and Analysis Centre, the Australian Attorney-General's Department, the Australian Federal Police, the Australian Crime Commission, the NSW Crime Commission, the Commonwealth Director of Public Prosecutions, the NSW Police Force, Victoria Police, the Asia-Pacific Group on Money Laundering, the Australian Customs Service, Dr Michael Levi, Visiting Fellow at the Australian Institute of Criminology and Dr Nikos Passas of North-Eastern University for their assistance in the preparation of this research. The author is also grateful for the contribution of the anonymous referees who reviewed the paper.

The author also wishes to acknowledge the consultation work undertaken by the Cultural and Indigenous Research Centre Australia and Myriad Consultants Pty Ltd as part of this research.

The author acknowledges the valuable assistance of colleagues at the Australian Institute of Criminology, with particular thanks to Dr Russell G Smith, Dr Judy Putt, Dr Kim-Kwang Raymond Choo, Mr Steve Hlavenka, Ms Julie Walters, Ms Janine Chandler and Mr Rob McCusker.

Acronyms

ACC	Australian Crime Commission
AFP	Australian Federal Police
AIC	Australian Institute of Criminology
AML	anti-money laundering
AML/CTF	anti-money laundering/counter-terrorism financing
AML/CTF Act	<i>Anti-money Laundering and Counter-terrorism Financing Act 2006</i> (Cth)
APG	Asia-Pacific Group on Money Laundering
ARS	alternative remittance systems/service(s)
AUSTRAC	Australian Transaction Reports and Analysis Centre
BMPE	Black Market Peso Exchange
BOP	balance of payment
BSA	<i>Bank Secrecy Act</i>
BSP	Bangko Sentral ng Pilipinas
CDD	customer due diligence
CEO	chief executive officer
CIP	complete information on the payer
DEA	Drug Enforcement Agency
DFID	UK Department for International Development
FARC	Revolutionary Armed Forces of Columbia
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FEMA Act	Foreign Exchange Management Act
FFIEC	Federal Financial Institutions Examination Council
FINCEN	Financial Crimes Enforcement Network
FINTRAC	Financial Transactions Reports and Analysis Centre

FIU	financial intelligence unit
FSA	Financial Services Authority
FTR Act	<i>Financial Transactions Reports Act 1988 (Cth)</i>
GDP	gross domestic product
HMRC	HM Revenue & Customs
ICE	US Immigration and Customs Enforcement
IFAD	International Fund for Agricultural Development
IFTI	International Funds Transfer Instructions
IFTS	informal funds transfer system
IMF	International Monetary Fund
IMTS	informal money transfer systems
IRS	Internal Revenue Service
ISPI	Intermediary Payment Service Providers
IVTM	informal value transfer mechanisms
IVTS	informal value transfer systems
JFIU	Joint Financial Intelligence Unit
KYC	know your customer
MAS	Monetary Authority of Singapore
MLR 2007	Money Laundering Regulations 2007
MLTA	Money Laundering Threat Assessment
MSB	money service business
NPM	new payment methods
NSWCC	NSW Crime Commission
OCDD	ongoing customer due diligence
OFAC	Office of Foreign Assets Control
OSCO	Organised and Serious Crime Ordinance
Patriot Act	<i>Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act 2001</i>
PCMLTFA Act	<i>Proceeds of Crime (Money Laundering) Terrorist Financing Act 2000</i>
PoDRS	providers of designated remittance services
PSP	Payment Service Provider
RBI	Reserve Bank of India

SAR	suspicious activity reports
SBV	State Bank of Vietnam
SFSA	Somali Financial Services Association
SOCA	Serious Organised Crime Agency
SRC	Somali Remittance Companies
SR IX	Special Recommendation IX
SR VI	Special Recommendation VI
SR VII	Special Recommendation VII
SR VIII	Special Recommendation VIII
SVC	stored value cards
UKMTA	UK Money Transmitters Association

Executive summary

People and businesses wishing to transfer money between themselves can make use of a variety of procedures. In addition to using simple cash transactions, most money transfers in Western societies take place using conventional banks and other financial institutions. In addition to ordinary banking, however, money and other forms of value can be transferred through the use of so-called ‘remittance services’ which have operated for hundreds of years in non-Western societies. Originating in southeast Asia and India, users of these systems transfer funds through the use of agents who enter into agreements with each other to receive money from people in one country (such as overseas workers) and to pay money to specified relatives or friends in other countries without having to rely on conventional banking arrangements. Funds can be moved quickly, cheaply and securely between locations that often don’t have established banking networks or modern forms of electronic funds transfers available.

Because such systems operate outside conventional banking systems, they are known as ‘alternative remittance’, ‘underground’ or ‘parallel banking’ systems. They are invariably legitimate and legal in many countries, although concerns have arisen in recent years that they could be used to circumvent anti-money laundering and counter-terrorism financing controls that now operate across the global financial services sector. Particular risks arise from the irregular forms of record-keeping which are often employed and the possibility that the laws of those countries in which they operate may not be fully complied with.

A heightened awareness of how terrorist activities are financed has led governments in developed countries to include alternative remittance systems

(ARS) within the regulatory controls that apply to conventional banks. In Australia, for example, the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (AML/CTF Act) classified the provision of alternative remittance as a designated service which requires providers to not only report suspicious matters to Australia’s financial intelligence unit and anti-money laundering and counter-terrorism financing (AML/CTF) regulator, the Australian Transaction Reports and Analysis Centre (AUSTRAC), but also to register with AUSTRAC before designated remittance services can be provided. This legislation places remittance providers under the same obligations as other reporting entities. This includes obligations to adopt AML/CTF programs and to file annual compliance reports with AUSTRAC.

It is important, however, to achieve a balance between regulating the remittance sector in an attempt to reduce the flow of illicit funds and permitting its continued use as a legitimate, alternative to the conventional banking system—especially for those in less-developed countries. Remittance systems provide many ethnic communities with the ability to send money and/or goods back to their country of origin, usually to their families who remain there, who may be dependent on receipt of such transfers. Remittance systems are also used for a variety of other commercial and social reasons.

This report provides a review of the operation of ARS in Australia and an examination of the risks that they entail for illegal movement of the proceeds of crime and financing of terrorist activities. It also examines the measures being used to regulate such systems around the world and whether these are effective in reducing the risk of crime.

Specifically, the aims of the project were to determine:

- which remittance systems are used by people in Australia, why and to what extent;
- whether, and to what extent, such systems are used for money laundering and the financing of terrorism and how the risk of illicit use can be minimised; and
- how compliance with the current regulatory regime can be enhanced.

Research was undertaken by independent consultants in Sydney and Melbourne who conducted interviews and focus groups with 33 providers of remittance services and 134 people from five ethnic community groups who made use of the services, namely, the Somali, Samoan, Vietnamese, Indian and Filipino communities. These groups were chosen as being the community groups in Australia that most often make use of ARS and who were willing to take part.

In addition, consultations were undertaken with representatives of the Australian Federal Police (AFP), AUSTRAC, the NSW Police Force, Victoria Police, the Australian Crime Commission (ACC), the Australian Customs Service, the NSW Crime Commission (NSWCC) and the Asia-Pacific Group on Money Laundering (APG). Finally, a comprehensive review of published prior research on the topic was undertaken.

The use of alternative remittance services in Australia

Since the commencement of the AML/CTF Act, approximately 5,891 providers of designated remittance services (PoDRS) have registered with AUSTRAC (figure current as at 4 February 2010; AUSTRAC personal communication 2010). The majority of providers operate in Sydney and Melbourne.

Although a number of religious, cultural and commercial motivations exist for using remittance services, the predominant reason is commercial. The speed, reliability, affordability and discretion of remittance (particularly the alternative remittance

associated with ethnic providers) are crucial factors in its popularity. Remittance is used to move money and value for a variety of purposes and its use is not confined to making payments to immediate or extended family members back in countries of origin (although that is the single most common reason). Other motivations may include:

- assisting a community as a whole by supporting a community event or project;
- repaying debts; and
- providing finance for commercial ventures such as the purchasing of land.

There is a tendency for the use of remittance to decline over time and inter-generationally, where second-generation community members may be unwilling to send resources overseas.

Many alternative remittance service (ARS) users reported unsatisfactory experiences with the formal banking system (particularly in relation to high costs and slow and unreliable delivery) and also expressed concern that use of the formal banking system could expose their relatives to extortion attempts by law enforcement bodies back in their countries of origin (in these cases, the discretion afforded by ARS providers was particularly appreciated). However, in Australia, it was found that some communities use corporate remitters as well as ARS and sometimes a combination of the two.

Misuse of alternative remittance services

Evidence of misuse of the remittance system exists both in Australia and overseas and a number of successful prosecutions have occurred in the United States, United Kingdom and Australia. The cases demonstrated misconduct by offenders over long periods of time, involving substantial amounts of money. In Australia, it was found that, on some occasions, the flow of legitimate and illegitimate remittance intertwined and that some ARS dealers were often prepared to handle suspect transactions in exchange for a higher rate of commission. It was also found that misuse of the remittance system was more likely to involve criminal behaviour, such as

dealing in narcotics proceeds and tax and customs evasion, rather than the financing of terrorism, although the lack of information regarding terrorism investigations makes the level of involvement of ARS hard to estimate. There is currently no clear evidence of the level of misconduct associated with alternative remittance, although on the basis of the current research and consultations, it is apparent that most transactions are legitimate.

Australian ARS users reported little personal knowledge of misuse of the system, although they expressed a degree of concern at the possibility of being cheated or the system being abused. They emphasised that they expected remittance providers to abide by the law, although they often had little idea of what the law was. A number of participants stated that they had some knowledge of ARS providers whom they believed to be dishonest and they avoided using their services. Users emphasised that they considered the remittance system (particularly the alternative remittance system) a valuable one, which serves a legitimate purpose, and they would resent any attempt to close the system down. Many users did not understand that the aim of the current regulatory regime is to guard against AML/CTF risks and that it is not designed for consumer protection.

Supervision and risk management

Since the 2001 terrorist attacks in the United States, regulatory bodies have devoted more attention to ARS providers. There is no clear consensus regarding the form of regulation that would be most effective in preventing ARS from being used for criminal activities. There is also no consensus regarding the level of risk the practice of alternative remittance poses with regard to activities such as money laundering and terrorism financing.

The recommendations made by the Financial Action Task Force (FATF) in 2003 regarding the regulation of ARS (and other AML/CTF matters) have been used by many jurisdictions, including Australia, as a basis for the regulatory AML/CTF frameworks they have introduced. For example, member countries of FATF and FATF-style regional bodies participate in both

self- and mutual-assessment procedures in order to gauge their compliance with FATF's 40 Recommendations and Nine Special Recommendations (see Choo 2010; Johnson 2008). FATF recommendations allow for regulatory regimes ranging from basic registration (which Australia and Canada have adopted) to licensing systems that entail the use of assessments of the fitness and propriety of people involved in the running or ownership of an ARS.

FATF recommendations emphasise that any regulatory regime must be flexible and not unduly burdensome so as to avoid the risk of the ARS being driven underground. However, it was found that a number of overseas jurisdictions (such as the United States and the United Kingdom) have adopted regulatory systems that place ARS providers under a considerable burden. In the case of the United States, this burden involves federal and state requirements, which means that ARS providers face differing requirements depending upon which states they operate in.

For many small remittance businesses in Australia, a registration-based form of regulation (coupled with AML/CTF programs) is not necessarily proving effective, owing to the fact that many such businesses are unlikely to have the organisational skills necessary to implement the regulatory framework required (AUSTRAC 2009b). In 2009, FATF outlined in its guidelines that money service businesses (MSBs) could adopt a risk-based approach but that such an approach would not always be the most suitable and some jurisdictions would find a rule-based system easier to manage (and potentially less costly for less sophisticated remittance businesses; FATF 2009). The application of this principle to individual industries, or even sectors within industries, may have merit for Australia.

Remittance providers who took part in the consultations demonstrated a high level of knowledge of the legal requirements relating to provision of remittance services. The providers appeared to resent other providers who did not comply with regulatory requirements. This was largely based on the perception that non-compliant providers could operate more cheaply than those who complied with regulatory requirements, although little detail was provided as to why this might be the case.

Somali ARS providers, in particular, seemed to be notably compliant with the legislation and emphasised that they make every attempt to follow the rules of each jurisdiction in which they operate. The Somali community was noticeably supportive of ARS providers, highly protective of the remittance process and potentially resentful of any perceived government attempt to close it down.

Users and other community representatives who took part in the consultations expressed interest in obtaining further guidance from AUSTRAC or other body concerning the impact of the provisions of the AML/CTF Act and other relevant legislation. Generally, they had little knowledge of Australia's current regulatory regime and did not appreciate that the emphasis of this regime is on addressing AML/CTF issues rather than consumer protection. Participants expressed concern at the possibility that people who send money overseas might be criminally liable under the anti-terrorism laws. However, they also expressed support for any consumer protection initiatives that may lessen the possibility of users being cheated and stated that, in their view, the implementation and monitoring of any such a system should be the responsibility of government. A number of community participants expressed sympathy for ARS providers who are allegedly struggling to understand and comply with regulatory arrangements. Users also suggested that consideration should be given to the provision of more practical assistance to ARS providers to ensure that they fulfil their obligations.

There were a number of comments regarding how government consultation with communities might be undertaken. Some positive options included the use of roundtables, information sessions conducted in languages other than English and the involvement of intermediaries in presenting information.

There was also support for a mechanism whereby both remittance providers and users could report providers they suspected of illegal behaviour and/or non-compliance with regulatory requirements, with an option to do so anonymously.

Generally, it was found that a system that places more responsibility on the regulated parties may not be suitable for many alternative remittance providers, who may not have the capacity to respond in any meaningful way. Community engagement and the provision of a simple mechanism for reporting misconduct may offer opportunities to manage risk and change behaviour.

Future directions and conclusions

Alternative remittance is seen by many as a valuable and legitimate practice. However, some people who use or provide ARS are concerned that they are being unfairly targeted by regulators and law enforcement bodies. Those who use ARS wish to see the industry better safeguarded with regard to consumer protection and compliance with the AML/CTF regulatory regime and are prepared to assist, at least to some degree, to help regulate the system from 'inside'. The criminal justice system also has a role to play in dissuading ARS providers and users from criminal conduct and punishing them if they take part in such conduct. However, as the alternative remittance industry involves many different kinds of providers and users, a regulatory strategy must consider the use of a number of different approaches simultaneously to be effective.



Introduction

The abuse of the financial system for illegal purposes, such as money laundering or financing terrorism, is a concern for law enforcement and government agencies worldwide. This concern has resulted in substantial academic and international debates regarding how to balance two conflicting priorities; safeguarding the financial system and ensuring it remains easily accessible.

The fact that the successful operation of the financial sector is crucial to society, performs many disparate functions (that are often regulated in different ways) and is made up of many different kinds of entities, makes the regulatory function more difficult. At an international level, there is the added complication that countries have different legal systems and traditions and may also have different expectations of their financial systems.

As a result of concerns regarding the prevalence and impact of money laundering, FATF was formed in 1989 to formulate guidelines for the prevention of money laundering and in 1990, issued the 40 Recommendations on money laundering (FATF 2003c). These were revised in 1996. In Australia, the *Financial Transactions Reports Act 1988* (Cth) (FTR Act) put in place a reporting regime that requires various financial entities to report suspicious transactions, transactions over a certain financial level and transactions going overseas. However,

the events of 11 September 2001 increased concerns regarding money laundering and the financing of terrorism, particularly the latter.

FATF revised its 40 Recommendations in 2003 and between 2001 and 2004 also issued nine Special Recommendations relating to terrorist financing (FATF 2003d). These recommendations and special recommendations now form the internationally-recognised standard for the prevention of money laundering and financing of terrorism and although not binding, are used by FATF as a basis for evaluating of the effectiveness of national programs in addressing these issues. The 40 Recommendations and nine Special Recommendations recognise that it is legitimate for countries to implement these measures with due regard to their own national circumstances.

In 2005, FATF conducted a mutual evaluation of Australia's AML/CTF policies. It was the first evaluation that used the updated 40 Recommendations and nine Special Recommendations as a basis for evaluation. The mutual evaluation highlighted a number of perceived deficiencies in Australia's arrangements that are being addressed by the AML/CTF Act. The aim of the legislation, as defined in s 3 of the Act, is to:

- fulfil Australia's obligations with regard to combating money laundering and terrorism financing;

- beneficially affect Australia's relations with foreign countries; and
- fulfil international obligations.

It is the intention of the Australian Government to introduce this legislation in two stages, with the first stage now complete, and the second being examined at present.

The *United Nations Convention Against Transnational Organized Crime* (UNODC 2000) and the *United Nations Convention Against Corruption* (UNODC 2003) place signatory states under obligations to introduce regulatory arrangements that will ensure banks and other financial bodies (the *United Nations Convention Against Corruption* specifically mentions money remittance businesses) maintain adequate records relating to the transfer of funds; and make effective arrangements relating to issues such as international cooperation and recovery of the proceeds of crime.

The aims of the report

The increased concern regarding how terrorism is financed has led to many countries to expand their financial regulatory systems to include many entities and activities that had previously attracted relatively little attention. One of the areas affected is alternative remittance.

There are a variety of options for the community and businesses wishing to transfer money between themselves. These include cash transactions and the services of financial institutions such as banks. However, money and other forms of value can be transferred through the use of so-called 'remittance services'. These services are provided by a variety of organisations from corporate bodies (eg Western Union) that transfer money to anywhere in the world, to remittance organisations of varying sizes (including sole traders) that specialise in sending money and value from particular communities to specific parts of the world.

Alternative remittance refers to money and/or value transfer systems that have varying degrees of contact with the 'formal' banking system. Although these systems were the subject of some regulatory and academic interest before the events of 11 September

2001, interest increased markedly as a result of the events of that day. This was, and still is, due to a perception that certain aspects of alternative remittance may lead to it being used for criminal purposes, such as money laundering or the funding of terrorism. Particular risks arise from the irregular forms of record-keeping which are often adopted and the possibility that the laws of those countries in which they operate may not be fully complied with. There are also concerns that increased regulation of the formal financial sector may have displaced undesirable and possibly illegal activity into the informal sector, and as a result, various aspects of the informal sector (such as alternative remittance) may require further regulation around AML/CTF issues.

In many countries, alternative remittance is a legitimate alternative to the conventional banking system, especially for people in less developed countries. Remittance systems provide many ethnic communities with the ability to send money and/or goods back to their country of origin, usually to their families who remain there and may be dependent on such transfers. Remittance systems are also used for a variety of other commercial and social reasons.

These systems are popular because many ARS users have had unsatisfactory experiences with the formal banking system (eg language barriers, high costs and slow and unreliable delivery of remittances), or originate from countries where the formal banking system may be limited in its operation (particularly rural areas) or corrupt.

In view of the importance of alternative remittance to many people, any regulation of the system has to maintain a balance between minimising the flow of illicit funds and permitting its continued use as a legitimate system. The issue of what constitutes an appropriate level of regulation is complicated by the lack of definitive knowledge regarding to what extent the alternative remittance system is actually misused.

The specific aims of the ARS research project were to:

- determine which alternative remittance systems are used by individuals in Australia, why and to what extent;
- determine to what extent ARS is used for money laundering and the financing of terrorism and how this risk can be minimised; and

- determine how compliance with the current regulatory framework surrounding ARS providers can be increased.

Scope of report

In this report, the following will be examined:

- the current evidence available regarding possible links between ARS and money laundering and terrorist financing;
- comparisons and contrasts of regulatory systems and law enforcement experiences in a number of jurisdictions with regard to ARS (including Australia);
- a summary of the results of consultations carried out in a number of ethnic communities within Australia regarding issues relating to the use of PoDRS; and
- findings concerning future research directions.

The report is divided into six sections. The first section contains the aims of the report and the issues addressed, definitions of terminology, a summary of relevant international initiatives, the methodology used in consultations conducted for this report and the limitations of the report.

The second section outlines the historical background of ARS, academic literature regarding ARS, the forms that ARS currently takes internationally and a comparison of the relative costs of banks, corporate remitters and ARS providers in a particular sample transaction.

The third section outlines the Australian ARS situation, with particular emphasis on the extent of use and the experiences of five members of Australian ethnic communities in the provision and use of ARS. It also examines whether recent regulatory change has led to a displacement of criminal activity from the formal to the informal financial sectors.

The fourth section outlines national and international cases of where the use of ARS has been linked to money laundering or terrorism-funding activity. An assessment is then made regarding the extent to which ARS is at risk of being used by criminal or terrorist elements and whether the regulatory response to ARS has been proportionate to the risk posed by the practice.

The fifth section outlines the Australian and international experience of regulating ARS. It also describes the results of research conducted into the current Australian regulatory system using members of five different ethnic communities as participants.

The final section summarises the findings of both the literature and consultations and suggests various issues relating to ARS that merit further study.

Definitions

The term 'ARS' is one of a number of phrases used to describe the practice of transferring money and/or value from one country to another and is used by FATF (Passas 2006; Keene 2007). However, other international bodies, such as the International Monetary Fund (IMF) and the World Bank use acronyms based on the phrase *informal funds transfer* (Keene 2007). Other names include *underground banking*. However, none of these terms are very accurate. First, there is no clear distinction between the 'formal' and 'informal' banking systems and, in this context, neither 'formal' or 'informal' have been properly defined. In the remittance industry, the formal system includes institutions such as Western Union. Such institutions carry out remittance work worldwide, are not tied to any particular ethnic group and state that they follow AML/CTF regulations (if any) in every jurisdiction in which they operate.

Second, the work of ARS providers is often linked to the formal banking system, in that ARS providers generally have bank accounts and are subject to regulation. Since 1988, ARS providers in Australia have been required, under the FTR Act, to report various transactions including suspicious transactions (or, to be more accurate, transactions that they suspect to involve laundering) and transactions over a certain monetary level.

The use of the term *alternative* is also problematic because it implies that there are other financial systems available to be used besides a formal one. But in a number of jurisdictions, 'informal' systems are the only ones available, a fact which has been recognised by international aid organisations (Maimbo 2003). Further, in many jurisdictions, informal systems are not in any sense 'underground'

or illegal, that is, they trade quite openly and are legally recognised. However, in some jurisdictions such as India and Pakistan, alternative remittance is illegal.

Informal transfer systems can take a number of forms. An informal funds transfer system (IFTS) usually transfers the value of currency of some kind—although no physical transfer of currency takes place—with the trader at some stage ‘netting out’ the sum of transfers to and from particular jurisdictions. A transfer system can also be an informal value transfer systems (IVTS; Passas 1999). An IVTS does not transfer the value of a cash amount (or at least not cash alone); it transfers anything of value. In fact, such systems often fulfil the definitions of both IFTS and IVTS, where they may transfer cash and/or the value of goods, depending upon which is more convenient. Passas (2003) has further distinguished between IVTS and informal value transfer mechanisms (IVTM). With regard to IVTM, Passas (2003) emphasises the sort of methods used to transfer value. IVTM is seen as far more prone to illicit use because, by their nature, they are unregulated and involve practices such as invoice manipulation, trade diversion, internet-based systems, stored value, and debit and credit cards.

Passas (2005a) emphasises that those who use IVTM often differ from those who use IFTS. It is contended that IFTS users often use such systems to move small regular amounts of money back to countries of origin, however, users of IVTM tend to be small groups who often use such systems to move large sums or amounts of value for illegal purposes (the sums being moved being far larger than could easily be transferred using an IFTS system). However, the fact that IFTS users also often move value (which qualifies the system as an IVTS), and may even use some of the methods that Passas (2005a) ascribes to IVTM, can complicate the picture. The boundaries between these systems are not clear cut as

an IVTS operator may engage in both types of IVTS, and a particular informal fund transfer may travel through several distinct IFTS and IVTM transfers before reaching its recipient (Shah 2007: 205).

The acronym for an informal money transfer system (IMTS) has been used as a way of resolving the problem, but this is perhaps a simplistic abbreviation as it does not place enough emphasis on the transferring of value (Charan & Aiken 2005).

The FATF definition of this practice included in Special Recommendation VI (SR VI; which deals specifically with money/transfer businesses) attempts to be as broad as possible. The definition is:

A money or transfer value business refers to a financial service that accepts cash, cheques, other monetary instruments or stores of value in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of communication, transfer or through a clearing network to which the money/value transfer service belongs. Transactions performed by such services can involve one or more intermediaries and a third party final payment.

A money or value transfer service may be provided by persons (natural or legal) formally through the regulated financial system or informally through non-bank financial institutions or other business entities or any other mechanism either through the regulated financial system (for example, use of bank accounts) or through a network or mechanism that operates outside the regulated system. In some jurisdictions, informal systems are frequently referred to as alternative remittance services or underground (or parallel) banking systems. Often these systems have ties to particular geographic regions and are therefore described using a variety of specific terms (FATF 2003a: 1).

The FATF definition is broad enough to include IFTS, IVTS and IVTM. This practice has also attracted a number of colloquial descriptions as outlined in Table 1.

Table 1 Colloquial terms for ARS

Name	Origins
Hawala	Indian subcontinent/India
Hundi	Indian subcontinent/Pakistan
Fie ch'ien	China
Black Market Peso Exchange	South America
Phoe kuan	Thailand
Hui/hui kuan	Australian Vietnamese
Padala	Philippines

Source: Passas 2005a

Although all these terms are employed in various contexts, *hawala* appears to be the most common colloquial term relating to alternative money/value transfer in the United Kingdom, particularly when referring to remittance services that specialise in meeting the requirements of specific ethnic communities. It is also a term often used in academic literature when discussing remittance. In Australia, the term ARS is generally used to describe such businesses (although *hawala* is also employed) and is used in this report.

The term ARS has been selected because it emphasises that people in Australia use ethnic-based remittance providers instead of alternatives such as banks. Corporate remitters who are not ethnically-based are a third alternative and, where necessary, they are distinguished from ethnic-based ARS providers.

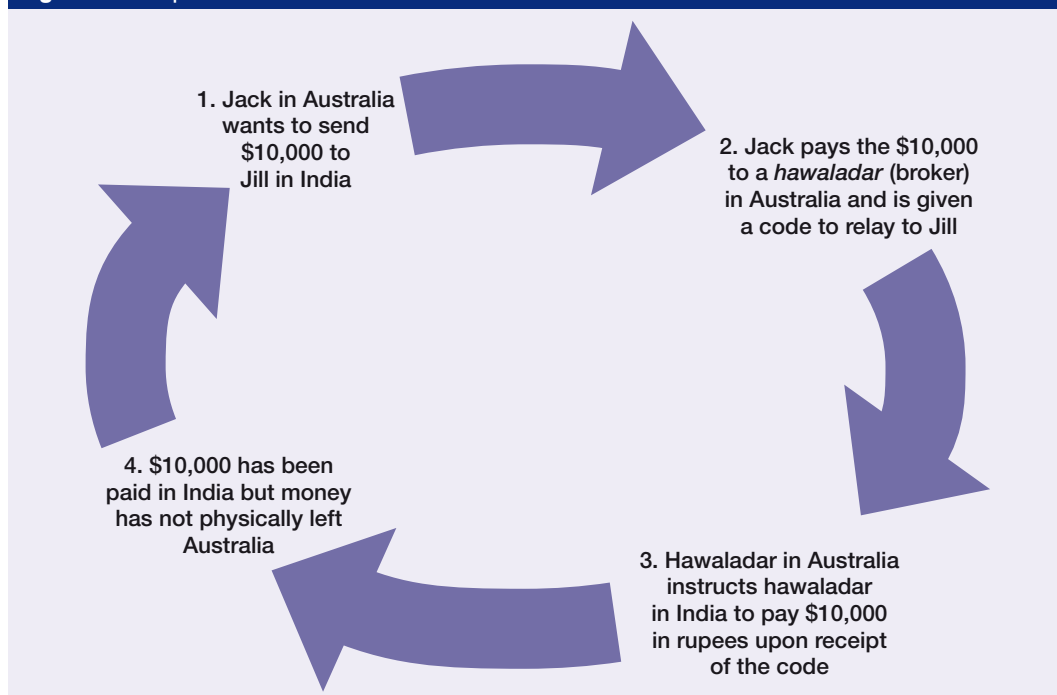
However, AUSTRAC, as the regulatory body for providers of remittance services, describes registered remittance providers as PoDRS by virtue of them providing designated services 31 and 32 as listed in Table 1 of s 6 of the AML/CTF Act.

The operation of alternative remittance systems

The simplest variant of ARS involves a sender, a beneficiary and two ARS providers as seen in Figure 1.

The first ARS provider charges a commission for organising the arrangement. This provider will owe the second ARS provider a debt that can potentially be satisfied in a number of ways, such as postal orders, a transfer through a conventional account or a transfer of goods (Buencamino & Gorbunov 2002).

Figure 1 A simple variant of ARS



Source: McCusker 2005

The alternative remittance process can become far more complicated and involve a large number of intermediaries but the crucial factor is that money does not leave the jurisdiction as part of each transaction.

International context: Increasing concerns regarding the use of alternative remittance

Since the 1980s, there has been concern over the possibility of criminal elements and/or terrorist groups making use of ARS. This concern predates the events of 11 September 2001, although the events of that day have raised the level of interest substantially. A number of commentators reviewed information received from law enforcement bodies regarding possible links between ARS and criminal activity (Carroll 2000; Howlett 2001; Jost & Sandhu 2000; Passas 1999).

A study involving a survey of 31 Interpol members in the Asia–Pacific region determined that two systems of alternative remittance (*hawala/hundi* and *fi-ch'ien*) existed in the region. Staff from 13 of the 31 countries contacted expressed concern that ARS was being used as a money laundering tool (Carroll 2000). Some jurisdictions commented that ARS was also used to facilitate capital flight and tax evasion. The single most common offence linked with ARS was the smuggling of drug profits and drug operating funds. With regard to some particular jurisdictions, ARS was cited by Indian Interpol staff as being used for the smuggling of precious stones, corruption and the financing of terrorism; by Pakistani Interpol staff as being linked to gold smuggling and corruption; and by Sri Lankan Interpol staff as being linked to terrorism, blackmail and arms/drug smuggling (Carroll 2000). The study did not provide many details regarding how ARS was actually used in these activities and was primarily intended to demonstrate which forms of ARS operated in the Asia–Pacific region and where regulators should direct their attention.

The nature of ARS operations can attract suspicion, whether or not this is always justified (Jost & Sandhu 2000). Whether ARS operations are considered illegal can depend on perspective. For example, what may be foreign exchange rate speculation

in one jurisdiction can be black market currency dealing and illegal in another. Jost and Sandhu (2000) use the term *black hawala* to describe the illegal use of ARS. They provide a number of typologies and actual cases where ARS was used for illegal purposes, including those involving narcotics, terrorism, people smuggling, welfare fraud, insider trading, customs and tax violations, and transferring money for gambling purposes. The term *black hawala* has not been universally adopted, although it may be a potentially useful in distinguishing illicit use from legitimate *hawala* activity.

In 2003, FATF revised the 40 Recommendations concerning money laundering and produced a number of special recommendations regarding terrorism financing (FATF 2003c, 2003d). Further special recommendations have since been added. The crucial recommendation regarding ARS is SR VI which specifically addresses issues raised by ARS. Other recommendations relevant to the operation of ARS are Special Recommendation VII (SR VII) which relates to wire transfers, Special Recommendation VIII (SR VIII) which relates to non-profit organisations and Special Recommendation IX (SR IX) which relates to the operation of cash couriers.

In SR VI it is noted:

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions (FATF 2003d: 2).

SR VI has three main provisions. First, it requires that jurisdictions should institute a licensing or registration system for those who provide money transfer services (formal or informal). Second, it requires that jurisdictions ensure that those who provide such services are subject to the 40 Recommendations (particularly those that apply to all bank and non-bank financial institutions and the eight Special Recommendations (as of 2004 there are now nine Special Recommendations).

In this context, SR VI also places emphasis on SR VII, which recommends that originator information be attached to all wire transfers and related documents throughout the payment process and that financial institutions (including remitters) should conduct enhanced scrutiny of wire transfers that do not have originator information attached to them.

Finally, SR VI requires that jurisdictions have a system in place that provides for the sanction of those providing money or value transfer services who do not abide by the jurisdiction's regulatory arrangements. In SR VI, FATF recommended that jurisdictions should designate a competent authority with the responsibility of ensuring compliance with any regulatory regime and monitoring the compliance of money or value transfer companies with the 40 Recommendations and the nine Special Recommendations.

FATF has expanded upon the implications of SR VI in three publications:

- *Interpretative Note to Special Recommendation VI: Alternative Remittance*
- *Combating the Abuse of Alternative Remittance Systems: International Best Practice*; and
- *Risk-based Approach: Guidance for Money Services Businesses* (FATF 2009, 2003a, 2003b).

FATF made a number of important points in these publications. The *Interpretative Note* emphasises that SR VI defines money or value transfer systems broadly and that it also defines licensing as an arrangement whereby a competent, designated authority granted permission to a person or organisation for them to legally operate as a money or value transfer operator. It defines registration as the requirement to obtain permission from a designated government authority in order to operate a money/value business before it can legally trade. The *Interpretative Note* recommends that any licensing or registration requirement also apply [to agents (defined broadly to include licensees, franchisees or concessionaires) of a money or value transfer business and that, as a minimum, a principal should be obliged to maintain a list of such agents which could be made available to the competent authority upon request.

In *Best Practice*, FATF noted that ARS provides a legitimate and efficient service, particularly where

access to the formal sector is difficult or prohibitively expensive (FATF 2003b). It suggests that government oversight should be 'flexible, effective and proportional to the risk of abuse' and should avoid the risk of increasing the compliance burden to the point where ARS providers might be tempted to go 'underground' (FATF 2003b: 3). It also states that regulation should be functional rather than excessively legalistic in nature. *Best Practice* states that regulation should, at a minimum, involve registration with a designated competent authority such as a financial intelligence unit (FIU) or a financial sector regulatory body. With regard to licensing, *Best Practice* recommends that there be background checks for owners, owners of a significant interest in an ARS or the managers of an ARS, although it is up to individual jurisdictions to decide what would make an individual unsuitable for such a role (FATF 2003b). *Best Practice* recommends that jurisdictions

put systems into place which bring any conviction of an operator, shareholder or director following licensing or registration to the attention of the appropriate authorities (FATF 2003b: 9).

This recommendation has been adopted by a number of jurisdictions in the form of a 'fit and proper' person test.

Best Practice also advocates that ARS businesses be obliged to keep a list of all bank account(s) that they maintain (FATF 2003b) and that they be obliged to comply with FATF principles regarding both customer identification and record keeping (although *Best Practice* notes that, with regard to record keeping, the regulator would need to bear in mind commercial practicalities). *Best Practice* suggests that, as a minimum, ARS operators should be obliged to maintain records for five years and that they be kept or be retrievable in an intelligible form (FATF 2003b).

Risk-based Approach discusses in detail what constitutes a risk-based approach when applied to MSBs. It notes that a risk-based approach is not mandatory and that in some jurisdictions, a rules-based system may be appropriate. It also notes that a risk-based approach does not necessarily lower costs, although it suggests that it should lead to a more cost-effective use of resources (FATF 2009). The guidelines accept that the adoption of a risk-based approach may involve increased costs, such as more training for staff, and may also

mean that a regulator has to accept that MSBs are likely to adopt a broad variety of approaches (FATF 2009). *Risk-based Approach* comments that the application of a risk-based approach to the prevention of terrorism financing is difficult because of the small sums of money involved, but it does not attempt to provide comprehensive guidance on how this issue can be resolved (FATF 2009).

Risk-based Approach places a considerable onus on regulators, suggesting that they need to provide MSBs with reliable information, that they place an emphasis on cooperation with the regulated sector and that they accept that the adoption of a risk-based approach will not eliminate all risk (FATF 2009). SR VII, SR VIII and SR IX are also of relevance to ARS. In SR VII, it is noted:

Countries should take measures to require financial institutions (including money remitters) to include accurate and meaningful originator [information] (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number) (FATF 2003d: 2).

SR VII may pose difficulties for ARS due to the potential number of intermediaries involved in an ARS transaction, particularly when a number of payments are consolidated together. It is stated in SR VIII that:

Countries should review the adequacy of laws that relate to entities that can be abused for the financing of terrorism. Non profit organisations are particularly vulnerable, and countries should ensure that they cannot be misused:

- by terrorist organisations posing as legitimate entities;
- to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and
- to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organisations (FATF 2003d: 2).

Many ethnic communities use charities to send money back to communities in their countries of origin. From SR IX:

Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments including a declaration, including a declaration system or other disclosure obligation.

Countries should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing or money laundering, or that are falsely declared or disclosed.

Countries should ensure that effective, proportionate and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosures. In cases where the currency or bearer negotiable are related to terrorist financing or money laundering, countries should also adopt measures, including ones consistent with Recommendation 3 and Special Recommendation III, which would enable the confiscation of such currency or instruments (FATF 2003d: 2–3).

Many ARS dealers use cash couriers to repay debts to one another. In a large number of jurisdictions, including Australia, this practise is legal as long as the cash is declared to border authorities if the amount being transported exceeds a certain limit.

Overall, it is apparent that FATF Special Recommendations VI–IX impact on a number of organisations and activities that are, in themselves, legal (and often interlinked), but are arguably subject to misuse (although the degree of actual misuse is difficult to gauge).

The APG *Typologies Working Group on Alternative Remittance and Underground Banking Systems: Alternative Remittance Regulation Implementation Package* (APG 2003) was designed to complement the broad principles set out by FATF. It suggests that with regard to the issue of regulation of ARS, for any regulatory system to be effective, it must address issues such as whether to license or register, how long any licensing or registration is valid, how information relating to registration or licensing of a business should be conveyed to customers, whether

any register should be accessible to other government authorities or the public, how to ensure compliance with any registration system and how to sanction non-compliance (APG 2003). This document emphasises that if a minimum standard is not applied by all jurisdictions, then there is the risk that criminal and terrorist organisations might take advantage of this lack of harmonisation of regulation (APG 2003).

While there is no doubt that different types of regulation can produce anomalous and sometimes undesirable results, FATF has noted the need for regulation to be sensitive to local and industry conditions. It has also commented that the regulatory regime should not to be excessively burdensome (FATF 2003b); and a risk-based program may not be suitable for all jurisdictions and that, in some cases, a rule-based regulatory framework may be more desirable (FATF 2009). In view of the fact that ARS operates in a wide variety of jurisdictions which have different cultures, different law enforcement and regulatory priorities, and are at different stages of economic development, it will always be very difficult to achieve harmonisation of law between jurisdictions and expectations of obtaining uniformity should not become unrealistic.

Broadly speaking, the adoption of either a registration or licensing policy means that, at a minimum, a relevant regulatory body must be informed of the existence of the ARS business. A registration-based system in its simplest form involves a designated, competent authority compiling a list of registrable businesses, with registration involving no cost to the business. A licensing program could be interpreted to mean that a designated, competent authority has evaluated the performance and compliance standards of the business in question and is prepared to vouch to the public that it meets the requirements set out by the regulating body. Whatever variant of these two basic regulatory systems is adopted, FATF recommendations involve a higher level of government involvement in alternative remittance than has previously occurred, however, are being used as the basis for regulatory arrangements in many countries. Depending on how such systems are enforced, they may be expensive to administer and risk alienating the providers and users of alternative remittance.

The topic of alternative remittance has also been the subject of a number of international conferences held in the United Arab Emirates. In 2004, in the conference statement of the *Second International Conference on Hawala*, the importance of any regulatory response relating to ARS being proportionate to the risks posed by such systems, and not be so burdensome as to drive ARS underground, was emphasised (Central Bank of the UAE 2004). The conference statement recommended that the best methods for achieving these objectives would include dialogue with providers and users of ARS and the removal of any impediments that would hinder people in using the formal financial sector. It recommended that jurisdictions should put in effect registration and/or licensing of ARS and then other AML/CTF measures as appropriate (IMF 2005). The conference statement thus attempted to support FATF initiatives, as well as the possibility of working with the providers of alternative remittance and the communities that make use of their services, without fully acknowledging that these strategies have the potential to conflict with each other.

It was noted that ARS providers preferred not to attract unwanted attention by attending public conferences and gatherings (IMF 2005). The question of how to contact and obtain information from ARS providers is potentially a difficult one to resolve, particularly where, as is the case in Australia, they are not represented by any industry body.

Methodology

This research was approved by the AIC Human Ethics Research Committee. It involved a review of current literature and current international agreements that are relevant to the regulation of ARS providers. It also involved consultations with a number of stakeholders including the AFP, AUSTRAC, the NSW Police Force, Victoria Police, the ACC, the Australian Customs and Border Protection Service, the NSWCC and APG.

Consultations conducted with AUSTRAC suggested that many quantitative issues, such as total levels of remittance by various Australian ethnic communities, the size of the average remittance and the number of instructions used to send remittances, had already been assessed by AUSTRAC in its role as regulator.

However, previous overseas research has identified qualitative research methods, particularly focus groups and phone interviews, as more effective when investigating the motivation and behaviour of users of ARS (Hilgert et al. 2005, IADB Multilateral Investment Fund 2006). Specifically, a qualitative approach has been used to address the experiences of ethnic communities with the banking industry, the role of women in decision-making regarding remittances and the role of the relevant community in policing the behaviour of ARS providers. These issues are primarily of a subjective nature and not able to be addressed by quantitative research. For example, previous research on the use of ARS by the Tamil community in Canada used a combination of focus groups and in-depth interviews to obtain information regarding ARS. Some ARS providers were reluctant to talk due to post-11 September 2001 experiences with Canadian authorities and there was difficulty on some occasions in using focus groups to obtain information from ARS providers because providers were not prepared to discuss commercially-sensitive information when competitors were present (Charan & Aiken 2005).

The primary aim of this research was to explore the experiences and attitudes of both providers and users of ARS in a number of Australian ethnic communities—with regard to both the ARS system itself and the current regulatory arrangements in place in Australia. The consultations examined the experiences and perspectives of both providers and users of alternative remittance to determine which factors had formed those perspectives and to assess the relative importance of factors relating to both the provision and the use of ARS and whether recent government initiatives have altered them (Minichiello et al. 1990). While adopting a qualitative approach, simple quantitative analyses were also undertaken where the data permitted.

It should be noted that although one aim of the research was to explore the extent to which ARS is used for illegal purposes, the voluntary nature of the research meant that it was more likely to attract businesses and consumers who believed that they were currently behaving in accordance with the law.

Sampling

The following criteria were used to select communities:

- length of time established in Australia—ranging from relatively well-established communities, to communities whose members had only recently started to arrive in Australia in large numbers;
- size—as determined in the statistics on Australia’s migration compiled by the Australian Bureau of Statistics (ABS 2008);
- representativeness of parts of the world from which Australia has recently received immigrants—South Pacific, southeast Asia and Africa; and
- the community’s active use of remittance as a method of sending currency or value back to their country of origin.

On the basis of these criteria, the five communities selected were India, the Philippines, Samoa, Somalia and Vietnam.

India was chosen for a number of reasons, including the size of the Indian community in Australia (population recorded as 199,696 in 2007; ABS 2008), the important role of remittances in the Indian informal economy (despite their being banned due to possible links with domestic terrorism and exchange rate manipulation) and the possible link between funds provided through ARS and various internal struggles occurring within the country (which have led to the practice being banned in India, although it continues to be widely used).

The Filipino and Vietnamese communities were chosen because of their geographic position in southeast Asia and their relative proximity to Australia, the size and prominence of their respective communities in Australia (in 2007, estimated population of 144,340 persons for the Filipino community and 188,038 persons for the Vietnamese community; ABS 2008) and their relatively high level of involvement in the remittance industry.

The Vietnamese community was considered to be of particular interest because of media reports regarding law enforcement investigations into allegations that members of the Vietnamese community were

involved in the misuse of remittance services and that they were using remittance services to move money that was the product of criminal activity relating to drugs (McKenzie 2006).

The Somali community was chosen because of its relatively recent arrival and community establishment in Australia (numbering 4,314 persons in 2007; ABS 2008), the high level of use of ARS by the community and the fact that it has gone through an extended period of civil war which may have potentially had a profound effect on the financial behaviour of Somalis.

The Somali community was also seen to be of interest because of concerns expressed by senior members in the media regarding possible use of remittance services by other members of the Somali community to send money overseas to fund al Qa'ida linked terrorist networks in Somalia and possibly other African countries (Stewart 2007).

Samoa was chosen because of the crucial role remittances play in its economy. In 2007, the size of the Samoan community in Australia was 17,739 persons (ABS 2008). The APG estimated that in 2004, remittances amounted to about 24 percent of Samoa's gross domestic product (APG 2006).

Data collection process

The researchers decided that ethnic ARS users in Australian communities did not have the necessary contacts within the chosen study communities to be able to correctly identify all relevant community leaders/representatives or ARS providers. It was decided that expert consultation was required to engage each of the five communities in a positive and culturally-sensitive manner. The latter was seen as particularly relevant with regard to issues such as the role of women in general financial management of households and communities and their role in deciding whether remittances should be paid and how much money should be involved.

Two consultants were contracted to undertake the data collection via consultations in Sydney, Melbourne, Brisbane and a number of regional centres. The consultants were chosen on the basis that they had done previous work with one of the chosen communities, or similar communities, and had the appropriate language skills. They employed

a variety of qualitative research techniques tailored for each community including:

- roundtables with key peak bodies;
- representative bodies and community elders;
- focus groups with ethnic community members who used or had knowledge of ARS; and
- phone and in-depth personal interviews with community members who used, or had knowledge of, ARS and ARS providers.

Specifically, a number of approaches were used to identify ARS providers from the Vietnamese, Indian and Samoan communities:

- Respondents were recruited through community networks identified by bilingual researchers or via community organisations such as the NSW Chapter of the Vietnamese Community in Australia.
- Vietnamese providers were identified through newspapers such as *The Vietnamese Herald* and *The Sunrise*.
- Samoan and Indian ARS providers were identified by ARS users from their respective communities.

With regard to the Somali community, previous research in Canada on Somali ARS providers and users had been conducted through a combination of interviews and workshops. Given the success of this approach, a number of Somali community leaders and professionals were initially contacted and they, in turn, provided researchers with contacts for people in the general Somali community as well as ARS providers (who were members of 6 large ethnic-based firms, rather than individual providers). Such snowball sampling can be effective in making contact with populations who are taking part in activities that they may not wish to be made widely known. The researchers distributed questionnaires to those taking part in the workshops and interviews several weeks before the sessions occurred. Because the remittance situation in Canada was seen as being public knowledge, Somali participants did not feel at risk of any kind of official sanction and were willing to provide the requested information (Hamza 2006).

The distribution of a written survey to ARS providers or ethnic community users of ARS was not appropriate. There were concerns that the ARS

provider response rate would not be sufficiently high to facilitate meaningful results due to the possibility that language barriers and cultural factors, such as distrust of government, might lead to a very low response rate by ARS providers or users to any written instrument.

The consultants used draft questions that had been supplied by the Australian Institute of Criminology (AIC) which the consultants modified as required. A copy of the questions provided to consultants is provided in Appendix A. All participants were provided with a plain language statement and a copy of this document is in Appendix B.

Sample size

All participants in this research were volunteers. The sample included a range across age, gender and location; all ARS users interviewed had used ARS within the last two years.

In-depth interviews were conducted with 10 (n=4 men, 6 women) individual Sydney-based Vietnamese community members via telephone and personal interviews. Eleven interviews (n=3 in Sydney, 8 in Melbourne) were conducted with ARS providers servicing the Vietnamese community. Nearly all providers were small business people of Vietnamese background. Of the 11 interviews with ARS providers, seven were conducted face-to-face and four were conducted via telephone.

For the Indian community, there were 10 (n=5 men, 5 women) in-depth interviews of Sydney-based community members. There were three interviews


with Sydney-based ARS providers who service the Indian community. These providers were all agents of Western Union and money transfers were a small part of their primary business which included a post office and a newsagency. The three interviews with ARS providers were conducted as telephone interviews.

Ten in-depth interviews (n= 6 men, 4 women) were conducted with Sydney-based Samoan community members. There were two interviews with ARS providers who serviced the Samoan community (1 in Sydney and 1 in Brisbane). One was an agent of a larger non-Samoan organisation and the other was an operator of a Samoan-owned business. Both of these interviews were conducted in person.

Fifty-two members of the Filipino community (n=19 men, 33 women) were consulted through either focus groups or individual interviews. Eight ARS providers servicing the Filipino community were interviewed.

Fifty-four Somali community members (n=13 men, 41 women) were consulted and there were nine interviews with ARS providers who serviced the Somali community. ARS providers were initially identified and later approached with the help of community leaders and other Somali representatives. The ARS providers preferred to take part in informal interviews.

The relatively small sample size of ARS providers and consumers means that caution has been exercised in making comparisons regarding the behaviour of communities.



The nature and use of alternative remittance systems

Context and historical background

Alternative remittance appears to have arisen in a number of parts of the world, including possibly China, central and southeast Asia and the Middle East. However, the way in which it originated is not clear. Although differing social conditions led to the practice taking a number of different forms, the variants had a great deal in common. Fundamentally, the systems arose when there was a need to move the value of money without moving the money itself (Passas 2005a). This is something modern financial systems do regularly, so today it is not necessarily a distinguishing feature of alternative remittance.

The system that developed in India was known as *hawala*. This word appears to be based on the Arabic phrase for ‘transfer’ (Passas 2005b). At the most basic level of *hawala*, the remittance process involves four participants—a sender, a beneficiary and two intermediaries. The sender approaches an ARS agent in their jurisdiction and advises how much they want sent, to whom and in which jurisdiction the recipient resides. The ARS agent then contacts another agent in the recipient’s jurisdiction and requests that they pay them the requisite sum. Reflecting more current banking practices, no money changes hands. Following the transaction, the first ARS agent is indebted to the second ARS

agent. However, it is likely that an ARS agent would be involved in a number of transactions at any given time and have links with many other ARS agents, therefore having multiple debts. A debt can be settled in a number of ways. A fairly simple method would be a cash courier, or in modern times, a transfer from one agent to another via a bank account.

The phrase *hundi* is now often used interchangeably with *hawala* in Pakistan and Bangladesh, but originally, a *hundi* was a bill of exchange or credit note that could be used as a remittance vehicle. It therefore came to form part of the *hawala* system but it is not essential to it (Passas 2005a).

A system known as *fei-ch’ien* (flying money) developed in China during the Tang dynasty. During this time, an increased trade in tea developed between the Chinese imperial capital and southern China. Provincial governors maintained tax offices in the imperial capital. Southern merchants would provide the money that they had made from the sale of goods in the capital to these offices, which would use this money to pay any tax quotes owed by southern provinces to the imperial bureaucracy. The provincial tax offices would issue any merchants who gave them money with a certificate and when the merchant returned home, they presented this certificate to the provincial governor’s office which would refund the money (Cassidy 1994).

The use of chits arrived in China in the nineteenth century when Westerners arrived in large numbers (Cassidy 1994). The system was then taken overseas with large-scale Chinese immigration. It has been suggested that this system has been used historically to protect the income of ethnic Chinese from taxation (Buencamino & Gorbunov 2002).

The *hawala* and *fei-ch'ien* systems are the most well-known and form the basis for modern ARS. The development of ARS systems in the Middle East is unclear, but it has been suggested that a *hawala*-type system operated for centuries to facilitate trade and also to protect the caravan trade (Ballard 2003a). It has been noted that ARS is comparable to Islamic banking in a way that Western banking practices are not (for instance, providers charge a commission for service rather than interest) and a *hawala*-type system may have been working in the region before the sixth century and was certainly operational by the time of the Arab expansion (Razavy 2005).

In summary, to some extent, alternative remittance appears to have arisen partially due to the impact of social unrest (which often led to travel conditions being unsafe) and partially for convenience as economic systems developed and immigration increased. Just how important social unrest was in the development of ARS systems is contentious. Fundamentally, alternative remittance was designed to move value between communities without the need to carry large amounts of currency, since currency was subject to theft, taxation, or was simply inconvenient to carry. In this way, alternative remittance facilitated trade. It was also a system whereby people in one community could send financial support to another, so from its inception, it had social and cultural aspects as well as important commercial functions. Therefore, it should not be assumed that alternative remittance systems were simply a response to adverse conditions such as the prevalence of theft.

Alternative remittance has survived because of its commercial utility. It has been suggested that the beginning of ARS was

in fact, benign, and [was] the result of people of similar ethnic background seeking a workable, efficient, cheap and secure means of transferring money and settling accounts with one another (Buencamino & Gorbunov 2002: 1).

But there has always been a potential for ARS to come into conflict with the interests of government. Initially, one of the aims of using an ARS system would have been to avoid theft by corrupt government officials as well as by bandits. Such systems could also have been used to avoid legitimate government activity such as various forms of taxation or licensing. Today, ARS is illegal in a number of jurisdictions for a wide variety of reasons, including fears that it may be involved in domestic terrorism or exchange rate manipulation. This suggests that the practice is viewed with suspicion by many governments.

Prior research

There is a considerable body of academic literature regarding ARS. There is debate regarding the motivations of users of ARS and the extent to which the system is subject to misuse. There are also a number of social structures supporting ARS and they are often co-dependent.

The economic basis to alternative remittance services

Commentators, including Buencamino and Gorbunov (2002), have emphasised the macroeconomic underpinnings behind the ARS system. These commentators emphasise that the fundamental reason for the existence of ARS is economic inequality between jurisdictions. In their view, ARS systems serve a useful economic purpose because they move value to areas that need it in a cheap, cost-effective way. One commentator summarised the situation in the following terms:

The recognition that macroeconomic and institutional deficiencies are the primary reasons [users move] from formal to informal channels, shifts the emphasis to political and economic crises, to extensive government intervention, including through repressive financial policies, excessive taxation, currency and trade restrictions and banking systems that are not trusted by the population and also global market dominance by large service providers such as Western Union. As long as these problems exist, IMTS will continue to thrive in many developing countries and fill

important gaps left by the conventional financial system at the national, regional and international levels (Buencamino & Gorbunov 2002: 5)

These commentators note that ARS is arguably subject to abuse, but that this risk is no higher than with more formal systems, and that criminals may actually *target* formal institutions because moving large sums through such institutions may attract less attention than moving them through ARS (Buencamino & Gorbunov 2002).

From this perspective, the continuing existence of ARS may be economically beneficial, although this may be dependent upon a number of factors. These may include the level of criminality such systems attract and the issue of whether money that is remitted back to countries of origin is actually used for purposes that are of long-term economic benefit. It is possible for remittances to be spent on funding civil wars, which would obviously be damaging for the receiver's country, and would lead to a greater demand for remittances, by those who have been left unemployed or dispossessed. It can also be argued that because remittances support many people in the developing world, this lessens pressure on the governments of those countries to improve their economic performance and the standard of living of their citizens (Allam 2008).

Commentators who emphasise the macroeconomic basis for ARS do not necessarily object to there being greater regulation, or even government policies that aim to move remittances into more formal or regulated channels by ensuring that remittances are not affected by currency exchange controls or by lowering import duties for articles such as precious metals. They also see a role for banks to improve their attractiveness to those who wish to send remittances via more formal channels with initiatives such as delivering remittances to the recipient's door. However, there is opposition to the abolition or substantial restriction of ARS (Buencamino & Gorbunov 2002).

In summary, there seems to be little doubt that ARS performs a valuable function in at least some areas. In the most extreme circumstances, when a jurisdiction's banking system has been effectively destroyed (such as in Somalia or in Afghanistan under the Taliban), ARS agents may prove the only effective way of moving value into the country for

either an individual expatriate or an international body such as the United Nations. In Taliban-controlled Afghanistan, the ethnic-based remittance system was the only effective way of moving money into the country and most money deliveries occurred within 24 hours at a commission of only one to two percent (Maimbo 2003).

In 2006, alternative remittance was the only way to move money to and from and within Somalia because the formal banking system was not operational. ARS providers could distribute money to virtually all parts of the country within 24 hours because even in the most remote areas, there was internet access which allowed for both instructions and money to be sent electronically (Hamza 2006). In such circumstances, interference with the ARS system can cause great hardship to the general population but there is always the risk that if the system is seen as crucial then increased regulation may drive it underground.

The commercial driver for alternative remittance services

A major factor in the continuing existence of ARS is the perception that it provides a superior commercial service to that provided by institutions such as banks and large corporate remitters. Ethnic-based remitters are often faster, substantially cheaper, more reliable and more flexible about services such as delivering remittances from door to door. Commentators who have looked in detail at this aspect of ARS have emphasised that it has survived for practical reasons. If this is the basis for use of ARS, then increased levels of migration may provide a powerful macroeconomic and commercial driver for its increased use (Dougherty 2006).

ARS generally flourishes where the formal financial system is weak; as formal systems strengthen, the use of ARS declines. What constitutes a weak formal financial system is not always easy to define. A financial system that has virtually ceased to exist, such as the system in Somalia, is an extreme example. A less extreme, and far more common, situation is when a formal banking system is perceived as not fulfilling the needs of sectors of its population because it charges high fees for remittances (particularly small ones), it only provides

remittances to a limited number of urban areas in other jurisdictions, it takes a long time to deliver a remittance and it provides no system of redress if the remittance is not delivered.

The actual size of financial institutions makes it hard for them to address the issue of charging relatively high fees for sending small amounts and it may not be economically viable to put branches in some areas in order to address the problem of banks being concentrated in urban areas. In these circumstances, it is not surprising that ARS continues to prove popular. It is also relevant that many new immigrants may find formal financial institutions intimidating. Language barriers may worsen this potentially alienating experience. Further, new immigrants may not be able to satisfy a financial institution's identification requirements; they are more likely to be able to satisfy an ARS provider regarding identification because both parties may be known within the relevant community.

The World Bank has undertaken a number of detailed studies with regard to remittance corridors. *Remittance corridor* is the term used to describe the link between particular countries along which remittances flow. The World Bank's perspective is that remittances are beneficial for both economies and individuals (and the cheaper it is to send remittances, the greater the benefit), but that in the medium to long term, a formalisation of the remittance process is desirable because this will assist in protecting remitters from being cheated, will lessen the chance of criminals and/or terrorists misusing the ARS system and will allow the overall economy of the country in question to become more structured in nature (Hernandez-Coss 2005a).

It has been suggested that, in economic terms, there is a natural progression from informal to formal systems of banking. This is based on the assumption that as economies become more complex, they have a greater requirement for arrangements such as enforceable contracts, and informal systems do not provide this level of commercial certainty. However, the validity of this assumption can be affected by economic circumstances or government action (Hernandez-Coss 2005a). Some of the remittance corridors studied by the World Bank have been established for a considerable length of time, such as the US–Mexico corridor, while others are

fairly recent such as the Canada–Vietnam corridor. The World Bank reports suggest that as remittance corridors age, they tend to become more 'formal' and one sign of this is that the formal financial sector becomes more involved in providing remittance services (Hernandez-Coss 2005a). It has been suggested that the use of remittance-like structures may be a basic stage of development; that once an economic system reaches a certain size and level of sophistication, it needs the stability provided by more formal and regulated systems with features such as a formal system of contract which is regulated by law (Maimbo 2005). The process of formalisation differs between each corridor, as the process is very much influenced by the nature of the jurisdictions involved and the attitudes of the relevant governments (Hernandez-Coss 2005a).

The World Bank's study regarding the US–Mexico corridor demonstrates that there are number of motivating factors behind the use of ARS. In Mexico, remittances perform a very important economic and commercial function. The study estimates, using an analysis of data provided by Banco de Mexico regarding formal remittance flows, that in 2003, remittances provided Mexico's second largest source of income after oil. These figures do not take into account the impact of informal remittances, which cannot be reliably calculated (Hernandez-Coss 2005a).

The World Bank study quotes Inter-American Development Bank research that states nearly one in five Mexican adults receive a remittance from the United States and those adults are not limited to the poorer or less-educated members of the population (Hernandez-Coss 2005a). The remittances are not purely exchanges between individuals; there are hometown associations that foster continuing social links between hometown communities of origin and towns in the United States.

The biggest senders of remittances were found to be Mexicans living in the United States. Because of the size of the market, there is a high level of competition between remittance providers, therefore commission levels can fluctuate. The Mexican and US Governments are supportive of the increased involvement of formal institutions in the remittance process and have introduced financial measures to make the sending of remittances cheaper, but they

are constrained by other political and economic concerns. Under the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act 2001* (the Patriot Act), the United States has introduced requirements that ARS providers be registered at a federal level and also comply with state licensing requirements. Since many ARS providers operate in more than one US state, this can be complicated and expensive and thus not attractive to many ARS providers, particularly if providing ARS is only a relatively small part of how they earn their living. In Mexico, there is the issue of how to encourage commercial banks to set up branches in remote rural areas. The World Bank report suggests that there is a decline in the use of informal funds transfer systems; they are still important, but the growing use of formal systems is having an impact on their popularity (Hernandez-Coss 2005a).

The World Bank has also undertaken a detailed study of the Canada–Vietnam corridor (Hernandez-Coss 2005b). At the time the research was undertaken, Canada did not require formal registration of remittance businesses (this changed in June 2008 with the introduction of a registration system) and Vietnam had no relevant regulatory structure, so it was not possible to determine the size of the remittance industry. There were two groups of Vietnamese people involved in sending remittances to Canada (Hernandez-Coss 2005b). The first group comprised people who were in Canada on short-term working visas where the Vietnamese Government had made official arrangements for them to send remittances home. The second group comprised Vietnamese immigrants to Canada.

The study determined that much of the remittance industry linked to the second group was ethnically-based and both senders and recipients were wary of Vietnamese Government involvement in the remittance business (Hernandez-Coss 2005b). Many recipients valued the relative anonymity that was offered by the informal system; they did not want their neighbours to know they were receiving money and they did not want government officials to know because they feared officials would try to extort money from them. Commercially, ethnic remitters were cheaper than any formal structure and Vietnam's formal banking system was largely limited to urban areas anyway.

Remittances in the Pacific (particularly Tonga and Samoa) often take the form of goods and they are sent to both individuals and institutions such as churches (Connell & Brown 2005). Remittances have, to some extent, been based on debt or self interest; people might remit back to their country of origin to pay off money they borrowed to pay educational or travel expenses, or so that others could invest on their behalf or leave them something in their wills. People were more likely to continue to remit if they intended to return to their country of origin at some point and the volume of remittances tended to decline with each generation. Many methods of remittance were used including credit cards, corporate remitters, ethnic-based remitters or cash carrying (Connell & Brown 2005).

Research on the Tamil community in Canada has emphasised the effectiveness of ARS in potentially moving money more quickly than governments are able to, particularly in the case of an event such as Boxing Day 2004 Tsunami (Charan & Aitken 2005). Remittances are important in allowing overseas members of the Tamil community help those affected by the Boxing Day 2004 Tsunami and the aftermath of civil war and remittances are often channelled through to villages in Tamil-held areas.

Based on findings from focus groups of Tamil ARS providers that were held in Canada, Singapore and Sri Lanka, the high level of use of ARS by Tamils to send value back to Sri Lanka is based on both historical and commercial factors, with trust being crucial to the process (Charan & Aitken 2005). The Tamil community in Canada use formal banking systems for their domestic banking, but ARS for sending remittances. Besides the issue of trust, ARS commissions are substantially lower than Western Union or MoneyGram. Focus groups also reported that bank fees are high and that the civil war has led to many rural areas having no formal banking structure at all, particularly in Tamil-held areas. Remittances are sent for many reasons, but at least some of them are cultural, such as female puberty celebrations and housewarming celebrations (Charan & Aitken 2005).

The assumption behind much of the research into the commercial aspects of ARS is that ARS users will benefit from an increased role by the formal sector in the remittance process (or at least an

increased formality in the process itself via regulation). Whether this is, in fact, the case is debatable. First, as discussed above, major corporate institutions may well struggle to provide remittances at the same low cost as ethnic-based ARS because of high corporate overheads. Second, they may find that it is not economically viable to penetrate rural and remote areas. Even if they can overcome these hurdles, there are cultural and religious aspects to ARS that a corporate structure may find difficult to address.

The World Bank's assumption that there is a natural and desirable progression from informal to formal financial exchange methods has not been proven. This process may occur due to factors such as government involvement or a major change of policy in the formal banking sector, but there does not appear to be any inevitability in the process and if there is widespread corruption or inefficiency within governments, or government financial institutions, such a transition may not occur.

Cultural and religious drivers for alternative remittance services

Commentators have suggested that the significance of ARS should not be limited to economic and commercial factors and that it also fulfils important cultural and social needs that more mainstream organisations may struggle to satisfy.

Research on the US–Mexican remittance corridor noted that although the corridor certainly has important economic and commercial drivers, it also fulfils an important social role in that it maintains links between both immigrants and their immediate families, and immigrants and their broader community in their country of origin (Hernandez-Coss 2005a). Such cultural factors may positively influence the use of informal channels of remittance, at least until formal channels become competitive with regard to issues such as price, cost, reliability and accessibility. In the case of Mexicans living overseas, the fact that the Mexican banking system suffered severe difficulties in the 1990s and was very unreliable as a result, may increase this tendency.

ARS agents are likely to be accepted and respected members of the community and therefore more trusted; they may in fact be related to the person sending the remittance. In a conservative setting, it may not be acceptable for a wife whose husband

is sending remittances back to her from overseas to visit a bank, but it would be more acceptable for a trusted member of the community to call on her personally to give her a remittance (Dougherty 2006). The ethnic and family ties that often form part of remittance system help make it possible for the remitter to telephone the country of origin to ascertain whether the remittance has been delivered.

Razavy (2005) asserts that whether or not ARS is Islamic in origin, it has become associated with Islam because it is well suited to the cultural practices of many Islamic countries. *Hawala* was used by both the government and individuals in Islamic regions run by the Abbasids, Ilkhanids, the Saldjuks and the Ottomans to avoid problems associated with transporting cash and, from the state's perspective, to speed up the collection of revenue.

It has been suggested by one commentator that because ARS providers usually charge a commission rather than interest, this makes it acceptable to Islam. Islam, through the Koran, the hadiths of Muhammed and Sharia law, condemns the charging of interest because it sees it as an exploitative practice, but it does accept the idea of transferring a debt (Razavy 2005). The same commentator cites *hawala* dealers who emphasise that the commission they charge is not interest because they are charging a fee for a service and they must cover the costs of providing that service (Razavy 2005). Razavy (2005) suggests the possibility that the fact that Sharia law is supportive of ARS would, to Muslims, overrule the laws of the secular jurisdiction. Therefore, for some Islamic communities, the use of ARS may have religious significance. Improvements to the formal banking sector with regard to remittances, such as lowering fees or increasing the speed of the service, may neglect the religious aspect.

The influence of religious beliefs is difficult to quantify because religious and cultural factors may be intertwined. A recent study regarding the impact of the Somali diaspora noted that

[t]he benefits of sending money back home are not limited to the economic well-being of those left behind, but also have important social significance. Besides being a lifeline, the remittances are the glue that binds together families separated by physical distance (Sheikh & Healy 2009: 19).

In summary, the evidence appears suggest that although commercial, cultural and religious factors are relevant to the use of ARS in the majority of cases, the commercial factor is more important during decision-making. The work of Hernandez-Coss (2005a) on the US–Mexico remittance corridor demonstrates that the formal sector can certainly make inroads into the remittance market if it is prepared to make the necessary operational changes. Government support can be relevant in encouraging this process, but this takes commitment from both government and the formal financial sector, and it has not been demonstrated that such a commitment exists in Australia or whether the expense involved in such an initiative would be justified. If there is a desire to commercially benefit a community by sending money there, the more reliable, flexible and cheaper a transfer process, the more likely it is to be used. Alternative remittance currently satisfies these criteria.

Criminal drivers for alternative remittance services

The reactions of international bodies such as FATF and jurisdictions such as the United States to the events of 11 September 2001 have been criticised as being simplistic. There is an assumption that the same policy initiatives that have been used to address money laundering will also be effective against terrorism financing, for example, the closure of the al Barakat overseas remittance company.

There has been much speculation as to whether ARS can be linked to either criminal and/or terrorist behaviour. In a number of jurisdictions, ARS is illegal and thus, by definition, using ARS is a crime. The reasons for this illegality can include the use of ARS to further domestic internal struggles or concerns that ARS is being used to evade currency controls. Furthermore, in theory, ARS can be involved in activities such as capital flight (as can formal banks). An important distinction between mainstream banking structures and ARS is that formal banks are obliged to follow the laws of all the jurisdictions in which they operate whereas ARS, in reality, does not always do so. In fact, they are most prevalent where jurisdictions have instituted measures such as foreign exchange rate controls (Passas 2005a).

At least one commentator has questioned whether the increased regulation of ARS, both at an international and national level, will yield results in

preventing money laundering and the financing of terrorism (Roberge 2007). The aim of money laundering is to introduce money back into the economy and this often involves the use of financial intermediaries. So there is some justification for increasing regulation of this sector, such as by introducing more reporting requirements, although in Roberge's view, a desire for increased regulation has to be balanced with maintaining the goodwill of the financial sector (Roberge 2007). However, maintaining the goodwill of the private sector may be even more important when it comes to dealing with the issue of the financing of terrorism.

The aim of terrorist financiers is to raise money from all kinds of sources, including legitimate ones such as charities, using both legal and illegal methods, and then spending it on a number of projects that support, maintain and foster the ideological basis of the group the money was raised for. The amounts of money used to finance terrorist attacks can be small, particularly compared to the amounts potentially involved in money laundering, and virtually impossible to detect other than by intelligence work, which may rely on informal contacts in many different groups including, potentially, the financial services sector. An excessively heavy-handed regulatory environment may alienate many people and impact adversely on informal sources of information, including ARS providers (Roberge 2007).

It has been further suggested that the main basis for suspicion of ARS providers is that they are perceived as 'outsiders'. However, there is little evidence linking them to terrorism, although there is some evidence of links to general criminal behaviour and organisations. As Viles (2008) emphasised, if Al Qaida used ARS networks in Afghanistan prior to the event of 11 September 2001, so did the community as a whole because it was the only viable financial system in the country.

It has been suggested that the structure of a typical ARS operation could make it very susceptible to use by money launderers (Dougherty 2006). The fact that most ARS providers operate other businesses, such as grocery stores, from the same premises means that they could potentially be involved in all stages of a money laundering operation. For the purposes of placement (ie the placement of funds in the financial system), funds from various sources could be

mingled together. Then false invoices could be used to layer the funds to be laundered and something like an import/export business could be used to integrate the laundered funds back into the economy (Dougherty 2006). There has been speculation that increasing levels of migration have, in turn, increased the size and complexity of ethnic communities to the point where personal contacts based on trust are no longer always relevant and that people use methods such as code words to identify themselves in the course of transactions (Passas 2008).

It has been suggested that ARS funds are at their most vulnerable when they are 'consolidated', that is, an ARS agent or a group of agents consolidate a group of remittances to send them together so as to reduce costs (Passas 2008). A more senior ARS agent may have responsibility for organising this and would have no direct contact with the people providing the remittances. Consolidation may also occur in overseas centres, such as Dubai, where many ARS transactions are balanced. Passas (2008) emphasises that during this phase, money will be arriving from many different sources.

It may be true that ARS are vulnerable to misuse, but the issue is whether they are any more vulnerable than other financial systems. As has already been mentioned, ARS systems contain self-regulating features and these features may be influenced by the number of people involved and are linked to the social nature of ARS. An ARS provider who operates within a community will need to retain the trust of that community as well as other ARS providers he deals with during activities such as consolidation. These factors may well encourage ARS providers to behave honestly.

It has been suggested that ARS transactions are susceptible to abuse because there are limited, or no, records involved. A more detailed analysis would suggest that the vulnerability is with the nature of the records themselves (Passas 2004). In jurisdictions where ARS is illegal, records may be very cryptic and subject to destruction. However, in many Western jurisdictions where ARS is legal, records can be both computerised and voluminous (Passas 2004).

On balance, the research to date suggests that the commercial driver behind ARS is very important and in the long run, may overcome many (but perhaps

not all) cultural and religious issues. The basis of ARS is, to a considerable extent, commercial practicality; it is cheap, quick, reliable, can deliver to remote areas and is culturally sensitive. As long as these factors remain, there is little incentive for ARS users to change to more formal systems such as banks or corporate remitters. This puts the onus on such institutions to change their practices if they wish to enter the remittance market. Whether the remittance market is sufficiently attractive for them to do so is, at times, questionable as the average remittance is less than \$300.

Commentators are currently divided regarding what sort of regulation (if any) should be applied to ARS and their views on this issue are linked to whether they see ARS as presenting a serious threat in relation to criminal or terrorist activity. Commentators such as Passas (1999) have distinguished between systems that transfer funds and those that transfer value; he believes the latter to be more prone to misuse and has expressed concern that over-regulation of legitimate ARS providers may encourage those who have previously specialised in the first activity to go 'underground' and become involved with the second. Nevertheless, Passas (2005a) now supports regulation of ARS providers in the form of registration and then possibly licensing, although he acknowledges the expense and possible risks involved.

Types of systems currently in use

There are currently a number of variants of ARS used around the world, but they share many similarities. The simplest variant has been outlined previously, however, the process often becomes far more complicated, involving a large number of intermediaries.

Figure 2 demonstrates that the communication between ARS providers does not move currency between jurisdictions, but that use of ARS does generate a need to eventually 'balance the books' between providers.

At a minimum, the process may involve a number of persons and at least two banks (see Figure 3 and Figure 4; Keene 2007). In fact, the process can

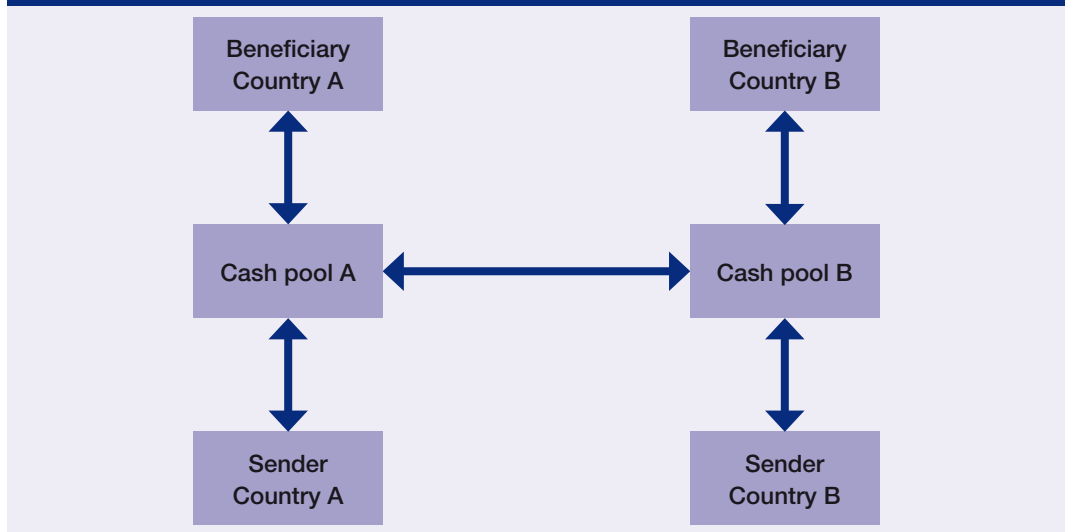
involve many participants, particularly intermediaries who may be based in a variety of jurisdictions.

Traditionally, telephone and facsimile have been used by ARS providers to convey messages to each other, but now the internet is becoming more important. Figure 3 shows a relatively simple version of ARS and Figure 4 shows a more up to date version demonstrating links with the formal banking sector.

One of the reasons behind these complex structures is that because remittances tend to flow from a

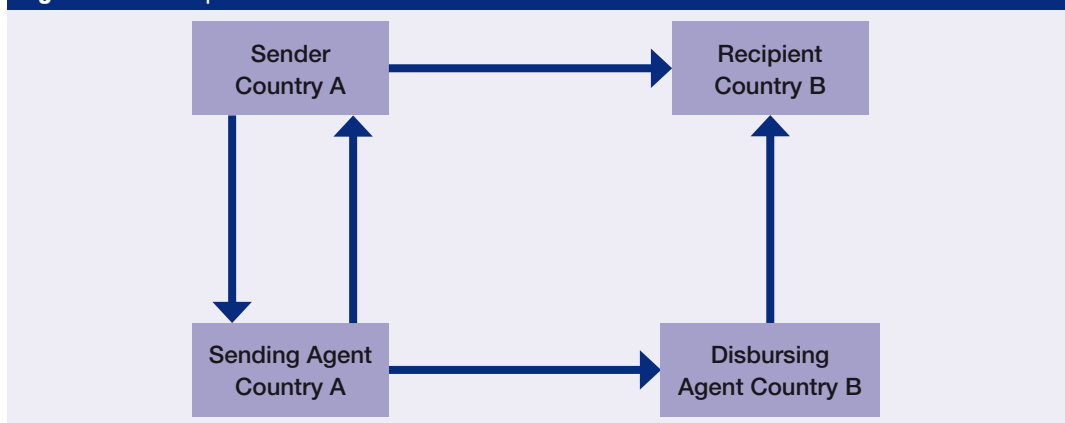
wealthy country to a relatively poorer one, the debts created between ARS providers are likely to be asymmetric. ARS providers need to balance their accounts; a process which can take several years. This imbalance can be addressed by a variety of methods. Commentators have noted the use of cash payments via cash couriers, precious stones or gold or other valuable commodities, over- and/or under-invoicing, postal orders, cheques, official drafts, bearer instruments and wire or banks transfers (Keene 2007; Passas 2003).

Figure 2 ARS providers



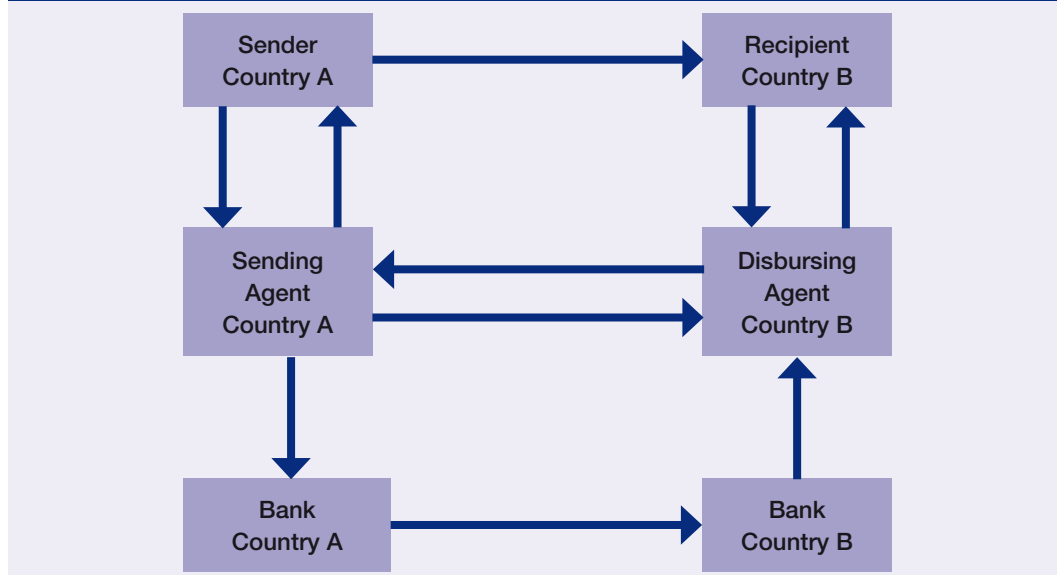
Source: Keene 2007: 189

Figure 3 ARS complicated variant no 1



Source: Keen 2007

Figure 4 ARS complicated version no 2



Source: Keene 2007

A variant of ARS that has emerged in the United States (and elsewhere) is the Black Market Peso Exchange (BMPE), which in the US variant operates between North and South America and is used for a number of activities, varying from the avoidance of import and export tariffs to involvement in the narcotics trade. However, this form of ARS appears to have a fundamental criminal rationale which is lacking in other ARS systems (Buencamino & Gorbunov 2002).

The illegality of any of these practices may depend upon the laws of the jurisdictions in which the arrangements were made, although over/under-invoicing is likely to be illegal because it leads to inaccurate reporting of income and also involves avoidance of duty. It may also have other criminal uses such as fraud, trade diversion, money laundering and corrupt payments (Passas 2005a).

The use of precious stones, gold or other valuable commodities can involve the black market, which means taxes such as goods and sales tax can be avoided. The settlement process between various layers of ARS providers demonstrates the main feature of ARS that distinguishes it from formal banking and the major corporate remitters. A proportion of ARS providers and users who use the system ignore the requirements of the jurisdictions

through which they move their transactions. Many ARS providers may have bank accounts in central locations such as Dubai, New York, Hong Kong and Singapore to facilitate the consolidation of accounts which reduces costs (Keene 2007). An operator in one of these intermediate positions is not strictly an ARS provider because they have no connection with retail customers; their role would be as financial intermediaries (Passas 2003). The existence of these central locations means that transactions may not be linear between sender and beneficiary.

Extent of usage overseas – number and value of transactions

It is difficult to quantify the size of remittances within the world economy because the remittance industry utilises both formal and informal channels and the use of informal channels implies an unquantifiable level of non-reporting. In 2007, however, the International Fund for Agricultural Development (IFAD) estimated that in 2006, 150 million migrants sent a total of more than US\$300b back to the developing world (IFAD 2007). This involved more

than 1.5 billion transactions that generally ranged from US\$100–300. The total comprised all remittances and was based on information from banks, other government sources, money transfer companies, international organisations and academic sources. IFAD (2007) noted that it suspects there is a high degree of under-reporting, particularly with regard to informal channels such as *hawala*.

IFAD (2007) commented that the costs of sending a remittance differed widely between regions and that the level of competition was a crucial factor. For instance, IFAD (2007) noted that sending a remittance to a remote rural area may be more expensive if the local banking industry does not extend its operations to rural areas, leaving the field open to alternative remittance providers (IFAD 2007).

The World Bank calculated that in 2007, recorded remittances to developing countries were likely to be approximately US\$240b and that the true size of remittances was likely to be larger due to unrecorded flows (Ratha et al. 2007). They suggested that this represented an increase from \$221b in 2006 and was more than double the level of 2002. It attributed the rise of remittance flows since 2002 to a number of factors, including an increased amount of migration, an increased level of scrutiny of remittances since 2001, a relative reduction in remittance costs and a general growth in the remittance industry. A depreciation in the US dollar has also encouraged higher remittances to cover its falling purchasing power in countries of origin. In 2007, the World Bank suggested that the advent of the cell phone and internet-based remittance may increase remittance flows even further.

In 2007, the World Bank estimated that in jurisdictions such as Tajikistan, Moldova, Tonga, the Kyrgyz Republic and Honduras, remittances exceeded 25 percent of the gross domestic product (GDP; Ratha et al. 2007). It also calculated that remittances were more than twice the level of official development assistance flows to developing countries.

In November 2008, the World Bank revised its estimates for remittances in 2007 to US\$265b. In 2008, it also reported that remittance flows to developing countries were beginning to slow in the third quarter of 2008, although it estimated that overall remittances for 2008 would reach \$283b and that it expected this downward trend to increase in

2009 (Ratha et al. 2008). The World Bank noted that the relative decline of remittances in 2008 was less than that of other capital flows, which demonstrates the resilience of the remittance practice. The World Bank suggested that the decline in remittances will be less than the decline in official aid (Ratha et al. 2008).

The Qatar Financial Centre (the Centre) has suggested a number of possible methods for estimating ARS flows (Collins 2008). It notes that the World Bank and the IMF usually base their estimates on balance of payment (BOP) figures. This approach can be limited by a number of factors, including the fact that jurisdictions may apply different definitions and concepts regarding BOP figures, some jurisdictions do not report BOP figures and remittances do not always flow in a straight path from remitter to beneficiary.

The Centre has also suggested that more refined modelling involving an analysis of the 'black market' and the 'shadow economy' may assist in estimating the size of informal remittance (Collins 2008). It emphasises that the money moving through these sectors will not show up in BOP figures because it is not officially reported; it suggests that ARS may be part of the 'shadow economy' due to its nature. In Australia, AUSTRAC receives both International Funds Transfer Instructions (IFTI) and Suspicious Transaction Reports from ARS providers so the principle that such figures would not show up in Australian BOP figures would still apply. Another method suggested by the Centre for estimating the size of the ARS market is to base the estimate on the size of an expatriate population and then estimate the size of the average remittance. However, it concedes that expatriate populations may be very hard to estimate, partly because some workers are not part of any formal system and the population is constantly changing (Collins 2008).

The Centre has suggested (partly based on World Bank figures from 2003) that there is a significant worldwide downward trend in the use of ARS (as distinct from the use of bodies such as corporate remitters) and this is due to a number of jurisdictions encouraging the use of official, that is, formal channels (Collins 2008). Such encouragement has taken the form of a number of initiatives including the prohibition of informal transactions, increased

registration of ARS, the freeing up of exchange rates, increased use of formal banking services with the opening of rural branches and the provision of incentives to the financial sector to improve its service quality with regard to those people who send remittances.

The informal nature of a number of remittance transactions and the possibility that a proportion of them may have no contact with either the formal financial sector or regulatory authorities makes it impossible at this point to gauge the size of the world's remittance industry. There are a number of countervailing figures that may affect the industry at any one time. It is likely that if governments and the formal financial structure genuinely cooperate in making an attempt to attract remitters into the formal sector this will impact the use of the informal sector. It is also likely that economic liberalisation regarding exchange rates may have a similar impact. Such measures may serve to make using the formal sector cheaper, which is possibly the most attractive single feature of alternative remittance—its lower cost. A decline in the world economy means many expatriate workers have returned to their countries of origin due to lack of work which also potentially lessens the size of the alternative remittance industry.

However, other factors may serve to increase the size of the remittance industry (particularly the informal sector of the remittance industry). Some of these factors could be political. Any event that makes the banking sector more wary of dealing with the remittance industry, or with remittances at all, would serve to increase the size of the informal sector. A change of government policy that means that a government is less determined to foster links between formal and informal banking sectors might lead to the formal sector taking fewer initiatives to attract remitters. A more restrictive immigration policy might lead to more illegal immigration and illegal immigrants with no documentation have little option but to use the informal remittance sector. This final example emphasises that not all the reasons for using remittance are purely economic—there are important political and cultural motivators, as well such as religious events, holidays, ethnic celebrations, political unrest and natural disasters—and the factors that impact upon the industry are by no means purely economic either.

Comparative costs

Table 2 demonstrates what was involved in sending \$200 from Australia to Vietnam as at 15 September 2009.

The possibility of using the banking system for such a transfer is based upon the recipient having access to a bank account. The corporate remitter requires that funds be transferred to an agent and therefore agent availability is crucial. The corporate remitter's rules state that the receiving agent should not charge extra fees, but this may depend upon local custom.

On the basis of the consultations undertaken during the present study, it appears that although cost may be an important factor in differentiating between banks and ARS providers, it may no longer differentiate so strongly between corporate remitters and alternative remittance. The possibility that some agents in the country of origin may charge extra fees may be very important as are community perceptions of the role in the decision regarding which remittance method to use. Speed is still a major differential between banks and alternative remittance providers and may also be crucial depending upon the number, location and quality of agents that a corporate remitter can provide.

Conclusion

As a system for exchanging value, the use of remittances predates modern banking. It is likely to have arisen in a number of parts of the world and the various forms it has taken have been influenced by the cultural practices of those who use it. Although there are a number of variants, the essential aim of the use of remittances is to move value without having to risk physically moving money or goods. Today, remittance services are provided by a variety of remitters, including banks, corporate remitters (eg Western Union) and ethnic-based remitters who usually send money to only one region or country and sometimes only one community. Ethnic-based remitters are known by a variety of names, including alternative remittance providers.

Remittance has attracted increased academic and regulatory attention since the terrorist attacks

Table 2 Comparative costs and transaction time in connection with a money transfer between Australia and Vietnam

Institution	Cost	Time
Bank 1	Telegraphic transfer: \$30 (15%) Internet Banking: \$20 (10%)	Up to 5 business days to transfer to account
Bank 2	Telegraphic transfer: \$28 (14%) Internet Banking: \$22 (11%)	Up to 4 business days to transfer to account
Corporate remitter	Transfer fee: \$4 (2%)	10–15 minutes to relevant agent
Alternative remittance	No exact figure provided	Very short time period; probably similar to corporate remitter and remittance likely to be delivered to trusted local

Source: Public sources and consultations with Vietnamese ARS providers and community members

of 11 September 2001 and there has been particular concern about the possible involvement of informal ethnic-based remitters and/or their customers in a wide range of criminal activities, including money laundering and terrorism. This has led to considerable debate regarding many aspects of the informal remittance industry, including the reasons why the practice is used. Although a mixture of economic, commercial, cultural and criminal motivations have been suggested, academic opinion favours commercial factors such as speed, reliability and reduced cost as being crucial to the popularity of alternative remittance (as distinct from institutions such as banks or corporate remitters). Alternative remittance may provide the only avenue for sending money to some jurisdictions that have no viable

formal banking structure, or to rural areas in jurisdictions where formal banking structures are confined to major cities (eg it has been used by international bodies to send money into countries affected by war or other issues).

Alternative remittance also has cultural significance in that it allows value to be moved and received in ways that are culturally acceptable. An example of this would be that it allows for respected members of the community to deliver money to people who would not be able to go to a bank to collect it. This cultural significance reinforces the commercial attractiveness of alternative remittance for many users.

The Australian experience of alternative remittance services

Number and value of transactions

AUSTRAC is responsible for maintaining a register of PoDRS. It is obligatory for any person who wishes to provide a remittance service to register with AUSTRAC, who then place their names on the PoDRS register. This registration system also applies to agents who are supplying this service. Under s 74 of the AML/CTF Act, providing a remittance service without registering with AUSTRAC may constitute both a civil and a criminal offence. PoDRS previously known to AUSTRAC as 'cash dealers' under the FTR Act are now required to register under the AML/CTF Act before they continue providing a designated remittance service.

AUSTRAC uses information derived from IFTIs to estimate the level of remittances flowing in and out of Australia. These reports must be made to AUSTRAC under both the FTR Act and from 12 December 2008, the AML/CTF Act.

Since the commencement of the AML/CTF Act, approximately 5,891 PoDRS have registered with AUSTRAC (figure current as at 4 February 2010; AUSTRAC unpublished data). A majority of IFTI reports are submitted through one of 229 principals or stand-alone remittance networks which report to AUSTRAC on behalf of their agents. Both principals and agents are required to register with AUSTRAC.

In Australia, PoDRS are concentrated in Sydney and Melbourne and to a lesser extent in some cities outlying regional areas. There are smaller numbers of PoDRS located in Queensland, South Australia and Western Australia and a much smaller number in the Australian Capital Territory, Tasmania and the Northern Territory.

Remittance providers generally employ a number of different methods of sending money or value overseas. These include sending funds to an agent or agents in beneficiary countries through the use of formal banking channels, or sending instructions to an agent or agents in the beneficiary country for customers to be paid. Where this occurs, actual cash does not cross borders. ARS providers currently use a combination of these methods.

IFTI reports are the main source of information used by AUSTRAC to estimate the number of remittance providers operating within Australia. An IFTI is an instruction to transfer money or property in or out of Australia either electronically or through a designated remittance arrangement. When remittance providers receive an IFTI, they are obliged to provide an IFTI report to AUSTRAC. China, India, Vietnam, the Philippines and the United Arab Emirates tend to be the top destinations for remittance flows, in terms of volumes of reports and money sent (AUSTRAC unpublished data).

The size and frequency of remittance transactions—communities' views

Consultations suggested that generally, ARS transactions are relatively small and regularly paid. With regard to the Samoan, Indian and Vietnamese communities, both providers and users of ARS quoted a range of different amounts that were sent overseas in a typical transfer. While some providers were involved in facilitating smaller transactions (ie several hundred dollars), others were accustomed to providing transfers of fairly significant amounts of money (ie several thousand dollars). Specifically:

- Samoan providers advised that, amounts transferred were typically between \$100 and \$1,000, but they could be up to \$3,000. The mean (average) for the 10 users interviewed was \$607.
- Vietnamese providers advised that typical amounts transferred were generally between \$200 and \$500, although they could be anywhere from \$50 to \$10,000 in the one transaction. One provider who was also involved in sending goods to Vietnam mentioned that a limit of \$500 had been set for transfers overseas, while in contrast, another provider from this community said that they had the potential to transfer up to \$1m. The mean for the 10 users interviewed was \$270.
- Indian providers advised that typical amounts transferred ranged from \$50 to \$500, but amounts could go as high as \$3,000. The mean for the 10 users interviewed was \$1,105.

The frequency with which providers conducted remittance transactions differed markedly according to the ethnicity of the communities they generally serviced, as well as the size and nature of their business.

On average:

- Samoan providers conducted transactions twice a day.
- Vietnamese providers were considerably busier from November to February, as this coincided with both Christmas and Vietnamese New Year. At other times of the year, some providers reported conducting three to five transactions per week, while others averaged from 10 to 15 transactions over the same period of time.

- Indian providers conducted anywhere from two to 10 transactions per day.
- Consultation with both Filipino and Somali community members suggested that there was considerable variation in relation to amounts of monies transferred. Responses included amounts as low as \$10 per transfer and up to \$3,000 per transfer. The most common responses identified amounts of between \$50 and \$100.

It is important to note that the consultations suggested that while the majority of remittance carried out in these communities is between individual family 'units', it is also common for extended families to pool money together to send overseas. These usually involve larger amounts, but are not differentiated or identified in the transfer process. One community member commented:

We are building a big family home in the Philippines for all of the family. My sister and I send money together every month for the building to be done (Filipino ARS user personal communication 2008).

The consultations suggest that the Filipino and Somali communities have similar reasons for sending remittances. Both groups have collectivist cultures that operate via strong family or 'clan' bonds where individuals contribute heavily toward community.

Responses in relation to amounts transferred differed between Filipino community members but were generally higher than the amounts suggested by the Somali community. This may be due to the fact that higher amounts reflect those who remit less often and lower amounts reflect those who send more often.

The average remittance sent by the Somali community ranged from an average of \$100 to \$200 per month per family. However, some representatives of the remittance companies interviewed asserted that the amount remitted may range from as low as \$10 to \$20 per month.

With regard to the Filipino community, specific responses from community members included '[t]he average amount is \$500 to \$1,000', '[t]he amount would be between \$100 to \$3,000', '[w]e send small amounts between \$2,000–3,000 to our family twice a year' and '[w]e usually send between \$100–150 a month' (Filipino ARS users personal communications 2008).

Filipino community members often joined together to send a large amount back to the Philippines to be used for community purposes such as a religious festival or wedding or funeral—such a payment may be made by a trusted individual. A regulator may therefore gain the impression that an individual (who may in fact not be a high income earner) has sent a large amount of money overseas on their own behalf, when in fact, it has been sent on behalf of a community. Legitimate payments can vary considerably in size and regularity.

The consultations suggested that with regard to these five communities, remittances are *generally* modest in size and regular in nature. This may have implications for the potential for alternative remittance to be used for activities such as money laundering. The Australian regulatory system is reasonably comprehensive and large amounts stand out, which might make the use of the alternative remittance sector for money laundering purposes reasonably difficult. This conclusion is a tentative one, however, due to the small number of participants involved in the consultations. Sending large amounts could be the basis for increased regulatory and law enforcement targeting of a community, but this decision would need to take into account the possible impact of cultural events, natural disasters and one-off celebrations.

Reasons for using remittance in Australia

People send remittances for a variety of reasons and these reasons differ between individuals and communities. Nevertheless, the consultations suggested that there were a number of common trends.

Generally, across all five communities the single most frequently reported reason for sending remittances was to assist immediate or extended family.

Filipino community

With regard to the Filipino community, reasons for sending remittances included:

- to assist family members pay for food;
- assisting with community projects such as the building of churches;
- to help the poor;
- to fund micro-businesses such as milk bars, tricycle transportation firms etc;
- to assist with family emergencies such as funerals or to pay for family ceremonies such as weddings;
- to assist with community emergencies such as floods;
- to pay for the education of family members; and
- to pay the costs of someone who wishes to travel to Australia (eg to be a temporary worker).

Somali community

Patterns of remittance within the Somali communities are strongly influenced by culture and religion, family networks and a commitment to relieving financial hardships for families left in Somalia.

The range of reasons for sending remittances that were provided by Somali participants included:

- to support family living expenses;
- for the education of family members (apparently a high priority);
- to send parents or other close relatives on pilgrimage;
- to help the extended clan group;
- to pay for occasions such as marriage;
- to assist families with funeral expenses;
- to assist with hiring guards for the protection of property;
- to repair shelters destroyed in the civil war; and
- to help build/rebuild family homes and increasingly invest in land and property on the migrant's behalf.

Almost everyone in the Somali community is expected to send money overseas. All members are expected to support their families back home or wherever they may be geographically located. Community members in Australia constantly receive pleas for help and those who can, usually do respond by sending money.

Given that a large percentage of the Somali community also follow the Islamic religion, it

is a requirement for followers of the faith to support their immediate and extended family in times of need. Apart from relatives, if a community member requests financial assistance, it is unlikely that they will be refused support. Interviewees commented that any community member who fails to support their family and relatives can be ostracised and even disowned by the community. One Somali community participant noted:

You will find that many people in our community do not answer their mobile, if it is a private call, after 3 pm Australian time, which is 9 am Somali time. This is to avoid inconvenient calls from overseas asking for money (Somali ARS user personal communication 2008).

Many send money back to families in Somalia and to family members in places such as Ethiopia, Djibouti, Kenya and Yemen. The remittances are intended to help with basic living expenses. Most Somali migrants cannot send enough for business or community investment. Some remittances are intended to be capital for shops, import and export businesses, and taxi, bus or trucking businesses. The emphasis of these remittances is on retail and wholesale trade and services, rather than industrial production. There were a small number of large transfers that were intended for investment in housing, as apparently some more stable parts of Somalia are experiencing a housing boom.

Remittances could be used in ways that reinforce social networks such as weddings, chewing *qaad* with friends, clan compensation—this involves clan-based compensation for injury or death; it is a traditional mechanism for assisting a victim's family and also preventing the escalation of conflicts—purchasing food for poorer neighbours or financing the emigration of relatives. Remittances can be sent for use in connection with religious and social practices such as *sako* (*zakaat* or compulsory alms), *sadaka* (voluntary alms) and *qaraan* (clan-based collection). All these practices are intended to help people in need.

A recent report has noted that with regard to the Somali diaspora, the:

[p]erceived obligation to send money to the family and relatives left behind poses economic and social stresses and strains for members of the community [who] also face major challenges in

their country of residence. These include limited employability due to lack of skills, lack of transferability of qualifications gained elsewhere in the world, race factors and a sense of alienation (Sheik & Healy 2009: 19).

Nevertheless, these commentators do suggest that at least with reference to the United Kingdom, there is little sign of 'remittance fatigue' and that Somali expatriates believe that their remittances are being responsibly used and that the level of accountability for these remittances is much higher than that obtained by international donors (Sheikh & Healy 2009).

Vietnamese/Indian/Samoan community

With regard to the Vietnamese and Indian communities, remittances are usually sent to support particular individuals or families and for specific occasions, such as birthdays. However, there are other motivations. Members of the Indian community sometimes remit back to India so that family in India could purchase local items that could then in turn be sent to Australia. Members of both the Vietnamese and Indian communities use ARS for business-related purposes such as paying off home loans overseas, purchasing items for an Australian-based business, or sending money to an employee's family overseas (in lieu of a salary). Research suggests that such investments do not require significant funds, with estimates of the financial investment required ranging from several thousand dollars to \$20,000, although most would not be more than \$5,000 to \$6,000. In some cases, the line between investment and supporting family was blurred. Members of the Vietnamese community may transfer money in order to purchase or build housing on their relatives' land and this offers benefits to the family living in Vietnam, as well as providing investment opportunities for the sender.

Among almost all users in the Vietnamese, Samoan and Indian communities, motivations for using ARS were to provide financial support or gifts to family and/or friends overseas. Specific examples were given in terms of providing financial support to assist in general living expenses and caring for relatives, for school fees (especially among Samoan users),

for overseas students and for medical/hospital costs. Several key events were also mentioned, including weddings, funerals, birthdays and anniversaries.

The obligation to help family appeared to be pronounced in the Samoan community and the researcher commented that in some cases, the obligation to send money to Samoa was so great that it was a higher priority than having adequate funds in Australia for their immediate family. In one interview, a parent commented that their first priority was to send money to Samoa, and their second priority was to consider whether they have 'enough to eat'. The woman's 15 year old daughter was present during this interview and she agreed that this was the case and commented that her family 'sends money every week and they can't even give us \$2' (Samoan ARS user personal communication 2008). Other comments from Samoan community representatives included:

I support my sister and her children and help them pay their school fees; and

I send [money] to my parents to help them pay their electricity bills.

For many of these participants, there were strong social expectations in their community and within the family that this type of support was necessary. Relevant comments included:

If I don't send money before the end of the month, my mother rings reverse charges and demands money for her church donations;

I feel obligated to send money to help my brother who looks after the family; and

I bought a water tank and helped pay for the materials to renovate the extended family's kitchen.

Within the Samoan community, there were also some users of ARS who transferred money overseas to provide financial assistance for community development, and in most cases, this involved donations to local churches/church groups as well as schools. This was not mentioned by users in the Vietnamese and Indian communities, where the purpose of financial assistance was generally to assist specific individuals.

The advantages of ethnic-based remittance

Research suggests that the decision about what sort of remittance provider to use involves a mixture of commercial, cultural and religious factors. In this context, organisations such as corporate non ethnic-based organisations (eg Western Union and MoneyGram) may behave in similar ways to that of the formal sector in that they claim to follow the relevant regulations of the jurisdictions in which they operate. The ethnicity of the corporate remitter can also be a relevant factor when members of an ethnic community make the decision to use them. Anecdotal evidence derived from consultations suggests that a major issue for corporate remitters is how to deal with the administrative complexities and expense of ensuring that all their agents fully abide by all relevant laws, including those relating to registration and/or licensing, reporting of various kinds of transactions and the implementation of AML/CTF programs. The consultations suggest that major corporate remitters are often perceived as more expensive than ethnically-based alternative remittance providers, even though this may not be accurate.

Samoan/Indian/Vietnamese community

Approximately half of Samoan users sent remittances via corporate remittance providers such as Western Union or MoneyGram. The remaining 50 percent used ethnic-specific ARS providers. Almost all Vietnamese ARS users utilise ethnic-specific ARS providers; only one participant used banks or organisations such as Western Union. Indian community ARS users largely used Western Union, or to a lesser extent MoneyGram, but approximately half the users consulted stated that the corporate agents they used were members of the Indian community. Nevertheless, it should be noted that within some communities, users may use either system, with those who use corporate remitters (particularly within the Indian community) citing a perception that the corporate remitters are more secure.

With regard to the Samoan community, a minority of Samoans interviewed believed that ethnicity was an important factor in the choice of an ARS provider. However, the majority of Samoans interviewed expressed some distrust of Samoan-based providers:

Their processes are too slow and complicated... the money has to go through their other agents, for example from Blacktown to Guildford and then to Samoa (Samoan ARS user personal communication 2008).

With regard to the Indian community, two-thirds of the Indian users interviewed believed that the ethnicity of the corporate remittance agent they used was unimportant (or had never considered the issue). For the minority who believed that the ethnicity of the corporate remittance agent was important, most believed the element of trust was relevant, particularly if they were new to the process.

Most of the interviewees from the Vietnamese community believed that the ethnicity of the ARS provider was an important factor, with all but one interviewee saying that it was important to deal with someone who spoke Vietnamese. Researchers suggested that English language proficiency is lower in the Vietnamese community than in the Samoan or Indian community and this may account for Vietnamese users placing greater emphasis on the ethnicity of the ARS provider.

With regard to the Filipino and Somali communities, there were a number of common reasons why people used ethnic-specific alternative remittance providers as distinct from banks or large corporate remitters. These included:

- Most people who do not choose formal channels do so because fees are too high. In some cases, fees charged are as high as 20 percent of the amount transferred and currency conversion rates can be as high as six percent.
- Migrants may not have access to formal transfer services, specifically banking services, because of their legal status in the host country and lack of required documentation. Further, formal transfer agents may not offer services to recipients in rural or hard-to-reach areas overseas.
- In some remittance corridors, banks offer comparatively less expensive transfer services, but transfer procedures which are perceived to be complicated and involve delays of several days or weeks for money to arrive at its destination may discourage increased use of banking services. Mistrust of banks can also be a factor in some communities.
- Transferring money through a bank or other formal institution is complicated and/or intimidating for many migrants. Migrants are attracted to alternative remittance systems because they are rapid and reliable. The primary motivation is that the systems of alternative remittance provide a cost-effective and efficient method for transferring money to family or for business reasons.
- Migrants send remittances for charity or community development purposes. These are usually coordinated by migrant associations abroad, in the form of collective donations, which usually help pay for improvements in basic physical infrastructure such as roads, electrical or water service, schools and medical clinics. They can also be used for ecological or cultural projects, again contributing to local development.
- ARS is perceived as a fast, safe and cost-effective way to transfer funds both domestically and internationally without using formal financial institutions.
- ARS is frequently more trusted by customers, especially when the service is offered by a member of the same ethnic or immigrant community.
- ARS can provide services in geographical locations that conventional banking channels often cannot reach (either at the location of the originator and/or at that of the recipient).
- Fees may be significantly lower for ARS than conventional banking systems.
- ARS provides a versatile and rapid service (many locations are served, there is no need to open accounts, different and delayed means of payments may be used).
- ARS is considered as the most practical and cost-efficient means of supporting family members left behind, most likely in poorer areas with limited economic opportunities.

Filipino community

The Filipino community provided considerable feedback in relation to the reasons why they use ethnic-based ARS. When asked to provide feedback in relation to why there is a preference to use ARS within the Filipino community, interviewees consistently referred to being attracted to the low cost, ease of access, quick delivery and in-language services offered by these providers. ARS providers are able to ensure the money reaches its destination within the hour if there is an urgent need and money can also be accessed outside business hours. Some relevant comments included:

When my sister's son was in a bad accident they had to transport him to the city urgently. They had to pay before they could take him and they do not have any money. If I went to a bank it would have taken too many days to send the money and it would have been too late. I quickly called XX and my brother in law went to their office in the Philippines and picked up the money straight away. I always use XX to send money to my family and because they know me I could arrange it straight away and then take in the money the next day to pay them back.

Someone dies at home and people need help. The money for the funeral can get there quickly (Filipino ARS users personal communications 2008).

Filipino ARS providers are able to speak the community language that makes dealing with them simpler and more efficient. It is usually older women in the community who are responsible for sending money overseas and many of them have little or no English language proficiency. Dealing with banks can be difficult due to language barriers. Filipino community members usually send very small amounts of money on a regular basis. They reported that Filipino ARS providers offer a much cheaper service, thereby allowing a greater portion of the money to reach family rather than being swallowed up in the transfer process. Negative and costly experiences when using mainstream systems, such as banks, have increased the use of alternative remittance providers. ARS providers also charge a flat fee that does not increase when larger amounts of money are being transferred. Filipino ARS providers made the following comments:

Most people in our community send about \$50 to \$100 at a time. A bank would charge \$20 just to

write a cheque. The agents here usually charge about \$5 to \$12 which is much cheaper and they make sure the money gets there much faster.

First time I did it, was through the Commonwealth bank, it was slow and expensive. It was only \$200 and I had to pay \$55 and it took so long to get to them. It would take one week. I had to let family know and so that was expensive for me and my family to chase up a bank and make sure that it got there.

No matter how much you send, it is the same price. Even with Western Union, if you send money it will range in cost—it is more expensive the more you send. It only costs us \$8 door to door and it always gets there. (Filipino ARS providers personal communications 2008).

Many Filipino ARS providers offer door-to-door service options which are the only way some people can get money to their families. This is likely to be the only option available to those whose families live in rural regions with no infrastructure that allows for money transfers. Communities also prefer door-to-door service when they are sending larger amounts of money as there is a fear of carrying large sums of money in public. However, some older participants saw door-to-door delivery as a risk in itself in terms of neighbours noticing that money was being delivered to a household. Some ARS providers can send an agent to the customer's home to collect the money to be transferred. This is helpful for older members of the community who experience mobility difficulties.

Older people in our community can't really afford to send much. Also it is too hard for them to go to a bank or office to send the money so they have to rely on others. They like the services where they can come and pick the money up from the house (Filipino ARS user personal communication 2008).

ARS providers are considered to be highly reliable and consistent in ensuring money reaches its intended destination within agreed timeframes. There was very little mention of negative experiences using ARS but negative experiences using formal banking systems were common. Many of the limitations involved in using banks are also due to problems at the receiving end.

The main problem is not the Australian end, it's the Filipino end where most of the 80 million

people either are not close to a bank or they don't have, or can't afford, a bank account (Filipino ARS user personal communication 2008).

Somali community

The research found that ARS use is also widespread within the Somali community. While ARS providers used by the Filipino community are also members of the Filipino community, ARS providers used by the Somali community are generally not ethnic Somali. The research found that almost all remittance organisations operating outside Somalia that service the Somali community are owned and operated by citizens of the respective countries in which they operate. ARS providers used by Somali community members usually come from a range of countries within the Horn of Africa or Egypt.

The most common method used for sending money is through Somali money transfer enterprises that charge a fee of around four to six percent. Community members in some locations sometimes send money through traders or friends, but given the efficient service and wide coverage of the money transfer enterprises, this is uncommon. When asked to provide feedback in relation to why there is a preference to use ARS within the Somali community, interviewees also consistently referred to being attracted to the low cost, ease of access, quick delivery and in-language services offered by these providers. However, they also highlighted cultural and religious requirements as critical in influencing the level of remittance transfer that takes place within the community.

Consultants noted that international events impacted on community willingness to speak openly regarding alternative remittance. Somali money transfer enterprises, known as *xawilaad*, came under scrutiny in 2001 when the largest enterprise, Al Barakaat, was closed based on US allegations of links to Al Qaida. Those allegations have not yet been substantiated. However, it has impacted on the way in which community members spoke about remittance practices during focus groups.

The range of responses provided by the Somali community participants included:

Community members are regularly contacted to send money to family members for urgent

situations. They consider ARS the only alternative as they perceive that banks require lengthy delays to arrange transfers.

Our money has arrived before we even get back home. Banks take 10 days (Somali ARS users personal communications 2008).

Many members of the Somali community need to transfer remittances to reach family members in cities destroyed by war, refugee camps and remote rural areas. This is only likely to succeed by using door-to-door services. Many of these areas do not have any services available, let alone banking institutions or branches.

Even if I send to my family a cheque, what good is piece of paper when there is nowhere they can go to make it cash? It is worthless. Some people in our community cannot send anything in the mail because there are areas with no post services. They have to depend on the local agents who know who the community members are (Somali ARS user personal communication 2008).

Most remittance transactions consist of relatively small amounts, sent regularly to provide for a family's or individual's basic needs. The typical amount sent is \$100 and is used for a family's monthly living allowance. It is important to note that some of the remitters send money to more than one person at a time.

We have many family [members] we have to help. My mother waits for me to send money to Somalia so she can help the family and I also send for my brothers and sisters from my father's other wife who live in Kenya. There are many family [members] that wait for us to send to them (Somali ARS user personal communication 2008).

The most common method of sending money is through ARS providers who charge a four to six percent fee. Migrants in certain locations sometimes send money through traders or friends, but given the efficient service and wide coverage of the money transfer enterprises, this is uncommon.

Similar to the Filipino community, ARS providers used by the Somali community speak the community language which makes dealing with them simpler and more efficient. Again, it is usually older women in the community who are responsible for sending money overseas and many of them have little or no

English language proficiency, preventing them from confidently approaching banks.

When I use this service I can explain what I need in my language. I can't do this when I go to a bank (Somali ARS user personal communication 2008).

ARS providers who service the Somali community are well-known by the community who understand how they work and have largely had positive experiences in dealing with them. This is not the case with banking institutions. Many refugee communities arrive in Australia totally unfamiliar with the concept of banks or banking and do not understand where their money is when it is banked or how safe it is. Banking processes may also serve to diminish community confidence and may trigger memories of past trauma.

Alternative remittance providers are doing a better job than banks. People are scared of being asked personal information (Somali ARS user personal communication 2008).

Lower service usage costs were also cited by the Somali community as a factor influencing their preference for using ARS. Interviewees referred to costs being as little as \$5 as compared with the bank average of \$20.

The Somali community had numerous experiences involving delays and problems associated with the use of formal banking systems. This was usually the result of spelling errors in documenting people's names. Many commented that this was unlikely to happen when they used ARS. ARS providers were more likely to have the ability to deliver money to a greater number of locations. Banks were limited to locations where they had branches or agents.

The ARS system is favoured because it usually costs less than moving funds through the formal banking system, it operates 24 hours and seven days a week, it is almost always reliable and it requires minimal paperwork. The system is built on a relationship of trust and therefore can flourish in an environment characterised by the absence of oversight or regulation such as that found in Somalia.

In summary, researchers concluded that ethnic-based ARS systems will remain an integral part of the Somali economy because remittance organisations have the trust and confidence of their

customers. Further, remittance organisations have an extensive network of agents who service almost all the towns and villages in Somalia, as well as all major cities and towns in other countries populated by members of the Somali diaspora. In addition, remittance operations are far more efficient and cost-effective than other financial services and there are social and historical factors (which in turn are tied to extended family, geographic and clan factors) that reinforce a relationship of trust between individuals doing business.

The following quotes represent common responses from Somali community members asked about why they prefer to use ARS providers: '[b]ecause they can reach my family easily', '[t]hey can help me to help my family', 'I am very comfortable dealing with them', '[t]hey can communicate easily with me and the recipient', '[t]hey can easily trace, locate and contact my family overseas', '[w]e trust them', '[t]hey are fast and reliable', '[f]amiliarity', '[b]ecause they have local knowledge' and '[b]ecause there is no other option for getting money to my family' (Somali ARS users personal communications 2008).

The degree of integration, particularly linguistic and financial integration, of a particular community into mainstream society appears to have a considerable impact on its level of use of alternative remittance, where the greater the integration, the greater the use of the formal banking system. Another issue that impacts usage levels is the financial and physical condition of the country of origin. It is noticeable that countries that have little effective financial infrastructure, such as Somalia, or major criminal justice issues, such as street safety, tend to attract high levels of alternative remittance.

The decision-making process

Filipino and Somali communities

In both Filipino and Somali communities, women play the key role in decisions about using ARS. Research regarding these two communities consistently revealed that:

- women remit more monies than men to distant family members including siblings, extended family and other community members;

- for both men and women, the longer they have been sending remittances, the larger the amount they are likely to send;
- within both the Somali and the Filipino communities, focus group participants suggested that the primary recipients of remittance funds were women, as they were regarded as being more 'trustworthy' in relation to using the funds for the benefit of the family; and
- the sending of remittances declines with each generation for a variety of reasons depending upon the circumstances of the community, including personal motivation and weakening economic ties with the country of origin.

One community participant commented that:

The younger generation, especially those who are born here or those whose immediate family is here with them, only send money as gifts on special occasions, not as regular support (ARS user personal communication 2008).

Within the Filipino community, word of mouth is the most influential means for accessing a reliable provider. Community members exist within a strong formal and informal network that operates to ensure widespread access to information. Formal networks include community-specific media such as newspapers, radio, cable television and social groups. Informal networks can also include social groups, family and friends. It is through these means that information about ARS providers is shared; allowing community members access to information about those providers that are familiar with extended family or who have local contacts in the Philippines. It is these providers that they are most likely to use. One Filipino participant commented:

They are advertised by word of mouth and therefore they have to maintain their good reputation of reliability, ease and fast, friendly service (Filipino ARS user personal communication 2008).

Consultation participants also referred to checking on the reliability of ARS providers by initially only sending small amounts. Once their validity is determined, community members are likely to use these providers on an ongoing basis.

We will check them by trying them out with a small sum of money because they are usually

referred by word of mouth. When we know that the money will get to our family we can send larger amounts.

Most experiences are that the money always arrives (Filipino ARS user personal communication 2008).

As stated above, women make up the largest percentage of ARS users in ethnic communities. The other highest user group identified in consultations with the Filipino community is overseas workers who have arrived in Australia under the 457 visa category (sponsored by employers). This group includes both men and women who are most likely to be sending regular, larger than average amounts, as they are usually supporting immediate family in the Philippines. Again, ARS providers offer a much more cost-effective and accessible means for ensuring money is transferred directly to the family.

Most of the Filipino community are very family oriented so we always help family back home. If you speak to anyone in our community you will find that they all send money to family in the Philippines. Many of our people also send money to build a family home so they can return one day (Filipino ARS user personal communication 2008).

Filipino ARS providers were also asked to comment on how they arrange for money to be delivered to family in the Philippines. All respondents commented that remittances are usually sent to female elders within the family for distribution among other members. As with the Somali community, women in the Filipino community are perceived as more reliable in ensuring that money will be used for its intended purpose. Some interviewees indicated that, where money was being sent to support extended family, they were expected to send back proof that the funds were effective in achieving intended purpose. One participant made the following comment.

We send money for the education of my wife's niece. She must send her results every year so we know she is completing the course. It is very difficult to find the money for this as we have to feed our family here too (Filipino ARS user personal communication 2008).

The most common user group of ARS is considered to include newly-arrived elders who continuously send money back to their extended family either in

Somalia or in a refugee-hosting country.

Newly arrived people send more money than those who [have] spent more years in Australia and have other priorities (Somali ARS user personal communication 2008).

Although the provision of remittance to family overseas is an expected requirement within the Somali community, many interviewees spoke of increasing reluctance to continue sending regular payments due to feedback received by community members who travelled back to Somalia and found that family were not struggling to the extent indicated.

Those who recently returned to Somalia say that some of the callers' economic conditions [are] not as bad as they explain when they are calling from Somalia (Somali ARS user personal communication 2008).

The consultations further highlighted that all age groups within the adult Somali diaspora participate in remittance provision. Those most likely to send money were employed and between 30 and 50 years of age. Young people were more likely to be at school and less engaged emotionally with people left behind, while older people, relying mainly on income support and pension allowance, were less able to help financially.

Somali migrants tend to mainly remit money to female relatives because they are responsible for buying and cooking food. Some also fear male relatives will spend the money on *qaad* (a form of drug) or on marrying a second wife rather than prioritising the collective needs of the existing family. Women receiving regular money through *xawilaad* may have more control of the household economy than those relying on a male breadwinner.

Vietnamese/Indian/Samoan communities

There was general consensus among those who provide ARS to the Vietnamese, Indian and Samoan communities that while their client base was broad within the communities they serviced, there were a greater proportion of customers who were born overseas or older customers. Among Indian providers, however, a few mentioned that younger

members of the Indian community, as a subgroup of customers, were also sending money to their families overseas.

Providers in the Samoan communities mentioned that while Samoans born overseas accounted for the majority of their customers, these individuals were 'often accompanied by their children to help them transfer money' (ARS provider personal communication 2008).

In some cases, older children accompanied parents to assist in completing forms, and this is particularly the case for older community members (those over 60 years) who rely on their adult children or grandchildren for assistance. This was seen to be necessary because often the providers were not from the Samoan community and therefore all transactions were conducted in English.

Research into these three communities also explored decision-making pathways and suggested that both men and women were involved in the decision to transfer funds overseas, as well as the transaction process itself. It appears that decision-making was less influenced by gender than by the links with family in the country of origin, as those with immediate family overseas were more involved in the decision to transfer funds. Women appeared to be more likely to conduct the transfer process, mainly because of fewer work commitments.

How the alternative remittance service process works—the user perspective

Table 4 provides the *how* and *which* elements of a typical ARS transaction from a user perspective.

Across all users in the Vietnamese, Samoan and Indian communities, contact with the final recipient confirmed whether funds were received and an accurate amount was transferred.

In summary, users of remittance services had a variety of experiences with being asked to provide identification. Familiarity between user and provider was an important factor in determining whether or not the provider requested identification.

Table 4 Summary of typical ARS transaction from a user perspective

Community	Description
Samoan	<p>All transactions in the Samoan community are conducted face to face. No phone-based transactions had been conducted among these users.</p> <p>Most Samoan participants simply told their provider how much they wished to transfer and either filled in a form with the users and the recipient's relevant details, or a provider did so on their behalf.</p> <p>Those who had membership cards^a however, were generally not required to fill in any forms as 'the worker just swipes my membership card and asks for the contact details of the recipient' (Samoan ARS user personal communication 2008).</p> <p>A few Samoan users were not asked to show any identification, though most were. If users held a membership card^a from their provider, identification was not generally required.</p> <p>Users could not articulate a clear understanding about how providers conducted the transaction. For instance, most Samoan users assumed that money was sent by providers directly to their destination.</p> <p>Users were also unclear about whether their transaction was collected together with other remittances or sent overseas as a single transaction, or whether other individuals or organisations dealt with the remittance before it reached the final destination.</p> <p>Most Samoan users reported that their, and their recipient's, personal details were recorded by the provider. Two Samoan participants believed nothing was recorded.</p>
Vietnamese	<p>Of the 10 Vietnamese users consulted, three stated they conducted transactions over the phone with their provider due to their familiarity with that particular provider—'I rang the provider and told them how much I wanted to send to my parents... I paid on the next shopping day two days later. There's no need to verify my identity as I've been a customer for the last 20 years' (Vietnamese ARS user personal communication 2008). The remainder of Vietnamese users utilised face to face services.</p> <p>For telephone-based users, transactions were as simple as placing a phone call to the provider and making a payment to them at a later date.</p> <p>For face-to-face visitors transferring money overseas, transactions generally involved some discussion about the exchange rate and the fees required. Providers then recorded the user's and recipient's personal details and a receipt was given to the user.</p> <p>Those who had received money were simply required to sign that the funds were received.</p> <p>One participant who used a bank for remittances followed the 'normal process for sending money overseas—filling in the bank's forms' (Vietnamese ARS user personal communication 2008).</p> <p>For those who sent money overseas using ethnic-specific service providers, identification was generally not requested by providers.</p> <p>In the majority of instances, money was transferred to the destination by telephone and, according to users, was sent directly to the destination rather than somewhere else first.</p> <p>Users were unsure about whether their transaction was collected together with other transactions, or how many persons/organisations dealt with their transaction before it reached the recipient.</p>
Indian	<p>No users from the Indian community conducted transactions over the phone—all were on a face-to-face basis.</p> <p>Providers generally completed a form recording the user's and the recipient's personal details. The transaction was then paid for by users and a receipt and 'code' or 'receipt' number were then given to the user.</p> <p>Identification was required in most instances, however a few users who were regular customers of an ARS provider were not asked for it due to familiarity between the user and provider. One user noted that their regular ARS provider always photocopied their identification.</p> <p>Indian users were unclear about how transactions were specifically carried out. Half of the participants assumed that the internet was involved, while a few others believed that a telephone call helped secure the transaction—'I don't know what they do. But they all seem to know what they're doing' (Indian ARS user personal communication 2008).</p>

Table 4 Summary of typical ARS transaction from a user perspective (continued)

Community	Description
	<p>Only one user said that their provider collected a number of remittances before conducting the transaction. Others assumed that the transaction was carried out individually.</p> <p>Similarly, all Indian users assumed that funds were transferred directly to their destination and that no one else was involved.</p>
Filipino and Somali	These communities send money through an ARS provider by using a representative agent or by visiting the provider directly to deposit money. Some community members use phone- or internet-based services but there was little evidence of this in consultations with ARS users.

a: many Samoans use Western Union regularly and so are entitled to a Western Union membership card. The membership card includes the relevant information which means that the sender is not asked to provide these details or fill in forms when transferring funds

Source: consultations with community users of ARS 2008

How the alternative remittance service process works—the provider perspective

From a provider perspective, transactions were generally conducted similarly across the Indian, Samoan and Vietnamese communities.

All providers reported keeping a record of the transactions, some ‘because you have to’ (Indian ARS provider personal communication 2008) while others did so in case a customer disputed the transaction at a later date. Recorded details included the names of both the user and recipient and their respective contact details (such as address and phone numbers). Receipt numbers and code numbers were often given to customers, although this was not mentioned by all providers. Some providers requested identification from their customers, although if customers were well-known to providers, it was often considered unnecessary.

Following the initial customer contact in a transaction, most providers typically contacted their agent in the country to which they were transmitting money to deposit the funds in the recipient’s account. Within the Vietnamese community in particular, this contact was often a member of one’s extended family. Contact was typically made by telephone, although email, the internet (through Western Union) and, to a lesser extent SMS, were also mentioned. Facsimiles were also often sent to agents in other countries several times a day, to provide up-to-date contact details for the recipients.

In the Indian community, the few providers who ran Western Union services tended to have scant knowledge about how the actual transfer of funds occurred from Australia to other countries. According to these providers, funds sent overseas from Australia were sent to a ‘centralised office’ but further detail on where this office was located or how funds were distributed was not articulated.

Use of Australian-based agents to transfer money overseas was not common among the providers consulted in this research. Only one Samoan provider reported working with a Brisbane-based agent who then used his networks to transfer funds internationally.

From an ARS provider perspective, transaction processes in the Indian, Vietnamese and Samoan communities were generally conducted along similar lines and differences tended to be based on the size and nature of the business, rather than the communities serviced. The providers included in the research can be segmented into two groups and these two groups tended to follow a slightly different process when transferring funds. The providers included in the research were either agents of large organisations, such as Western Union, or smaller businesses where money transfers were one of the services offered to customers. For example, several of the providers also ran grocery stores and newsagencies, and one was a doctor’s surgery.

All providers were asked to describe the process for transferring funds. The process is detailed in Tables 5 and 6.

Table 5 Summary of typical ARS transaction, provider perspective—Indian, Samoan and Vietnamese communities

Process	Description
Initial customer contact	<p>In most cases, customers approach the provider in person.</p> <p>Occasionally customers contact the providers via telephone, however this only occurs where there is an existing relationship (as a result of regularly transferring funds). Telephone transactions can happen in two ways. Several providers (four Vietnamese and one Samoan provider) said that they asked the sender to deposit the money into their account and present proof of this via facsimile or receipt prior to the transfer occurring. Three providers said that the customer called the provider and organised the transfer, and then visited the provider at a later date to provide the money. That only occurred when the provider knew the customer well and there was a long history of money transfers. One provider also said that it only occurred when small amounts of money were involved. As businesses are usually located in shopping districts, customers visited agencies when they were next visiting the shops.</p> <p>Larger organisations (Western Union and Worldwide Travel) do not accept phone requests and small businesses were the only providers that accepted phone transfers.</p> <p>Providers also mentioned that sometimes people send money on behalf of others and in most of these cases, people send money on behalf of their elderly relatives (Vietnamese and Samoan) or their husband/wife—‘It’s very common with older people. The older generation rely on their children to do transactions’ (ARS provider personal communication 2008). In these cases, the transfer is signed on behalf of someone else, but the person who authorises the payment at the office shows identification.</p> <p>There were mixed responses from agents of large organisations with regard to accepting transfers on behalf of others, with some accepting them and others not. Where it was accepted practice, the transfer was signed by the person attending the office of the provider and that person also shows identification. Several Vietnamese providers said that they did not accept transfers on behalf of others.</p> <p>It was very clear that providers did not ask customers what the transfer was for, with every provider adamant that it was not appropriate. While providers were able to discuss reasons why clients transfer money, it was based on clients volunteering the information, rather than on the providers eliciting the information. Several Vietnamese providers noted that besides it not being their business, it is also unlikely that people would disclose the truth.</p> <p>Most, but not all, providers said that they ask for identification. Agents from larger agencies were more likely to say that they always ask for identification and were aware this was required due to government regulations. Several providers noted that customers who are well-known are not required to provide identification. Other providers said that they only ask for identification for large amounts (several mentioned over \$1,000–3,000 and three mentioned over \$9,000–10,000). One provider said that they never ask for identification.</p> <p>Money is paid by the sender as cash or EFTPOS. Providers said that they do not accept credit cards.</p> <p>One agent of Western Union said that there are limits for the amount that can be sent to some countries in one transaction and that the limit for India is \$2,000.</p>
Record keeping	<p>All providers collected and recorded the customer’s and receiver’s contact details—name and contact number. Address details were recorded by some, but not all, providers. In most cases, the details were recorded electronically.</p> <p>Agents of larger organisations required customers to complete a form.</p> <p>Providers kept copies of the customer details, the transfer receipt and the delivery details (date, time and receivers’ details). These are kept in case a customer disputed the transaction at a later date, but also for accounting purposes; ‘because you have to’ (Indian ARS provider personal communication 2008).</p> <p>One Vietnamese provider said they provided receipts on request. Few other providers discussed the receipt process.</p>
Transfer	<p>The provider contacted the agent in the relevant country and this contact was made a variety of ways. Telephone and facsimile were mentioned most often, while email and the internet were also relatively common. Internet was used by agents of larger organisations and several smaller businesses used the internet because of the lower cost. SMS was rarely mentioned.</p>

Table 5 Summary of typical ARS transaction, provider perspective—Indian, Samoan and Vietnamese communities (continued)

Process	Description
	<p>Agents of larger organisations, such as Western Union and Worldwide Travel, contact the central office in Australia via the internet and the money is transferred through the office. Several of the providers who ran Western Union services targeting the Indian community had limited knowledge about how the actual transfer of funds occurred from Australia to other countries. According to these providers, funds from Australia sent overseas were sent to a 'centralised office', although further details on how funds were distributed was not articulated. A provider working with the Samoan community worked with a Brisbane-based agent who then used his networks to transfer funds to Samoa. All other providers dealt directly with agents overseas.</p> <p>All providers said that funds were transferred directly to the relevant country, with most saying that the funds were not handled several times.</p> <p>There were mixed responses regarding the grouping of transactions. The businesses that were agents of larger companies were not sure if this occurred when the central office transferred funds overseas, but assumed this was the case, although the agents themselves generally sent requests to central office individually. A few providers grouped requests and sent them once or twice a day, while several small businesses did not group the transactions. This was probably because several of these small providers guaranteed a quick turnaround.</p> <p>One Vietnamese provider said that they have money in Vietnam for advance payment and that they deliver to the customer first and receive the money later in the month from the relevant bank. Two providers to the Samoan community also said that there were funds in Samoa that were accessed immediately.</p> <p>Several Vietnamese providers said that the receiver could choose to either have the money delivered directly to their home or to pick up the money from the relevant sub-branch (which for many is a home-based business). A few providers noted that people could also nominate for the money to be transferred to a bank in Vietnam, although one provider mentioned that people often do not want the money transferred to a bank, as they 'do not want any government to know they have money' (ARS provider personal communication 2008).</p> <p>Some Vietnamese providers said that they had a number of staff in Vietnam who assisted in providing the transfer service and, in most cases, the staff were members of their extended family.</p> <p>Several also provided a very quick turnaround, with the money available within an hour in some cases. This was seen to be a result of the competitive nature of the industry.</p>
Collection	<p>All providers said that the receiver showed identification and signed for the funds/goods.</p> <p>Agents of larger providers working with the Indian community said that the sender is given a money control number, or sometimes a test question, that they must tell the receiver. The recipient was able to visit any Western Union office with the code number and sender details to collect the money. Several Vietnamese providers talked about a pin number or a money-transfer customer number that was provided to the receiver for accessing the funds.</p> <p>One Samoan provider said the recipient was contacted by phone by the agent and the receiver then collected the money from the agent. For most other providers, the sender was responsible for contacting the recipient and explaining how the funds could be accessed.</p> <p>In some cases, in Vietnam, people received the funds as tales of gold or in Australian or US currency. It was explained that the amount of Vietnamese currency needed when exchanging Australian dollars is too great, and because of this, sometimes other currencies or tales of gold are used, as they are easy to store, allowing the receiver to exchange the relevant amount when needed.</p> <p>Several providers also mentioned that sometimes cheques are received for larger amounts.</p>
Verification	<p>Verification of the transfer was dependent on the customer and receiver making contact. Providers said that if they did not hear from the sender, they assumed the transfer had been successful. One provider said that 'once or twice there has been a clerical error and the money has not been picked up at the other end. I know this because this sender comes back' (ARS provider personal communication 2008). Most other providers said that they had not experienced a situation where the funds were not transferred successfully.</p> <p>Several Vietnamese providers said that the agent in Vietnam faxed the details back to Australia so that the signature can be verified.</p>

Source: consultations remittance providers to Indian, Samoan and Vietnamese community members 2008

Table 6 Summary of typical ARS transaction, provider perspective—Somali and Filipino communities

Process	Description
Initial customer contact	<p>All of the ARS providers interviewed were aware of the ‘100 point check’ requirement and most had processes in place to ensure that they met this minimum identification requirement (most kept photocopies of identification documents as a record of this check). Not all providers were willing to discuss whether they adhered to this requirement.</p> <p>Some of the ARS providers interviewed were, at the time of interview, looking into how they could enforce this requirement on ‘sub-agents’ they used to access new clients. A number mentioned that they were not fully confident their sub-agents were complying with the identification checks required to meet Australian laws.</p> <p>Agents who worked for providers were easier to access by users to provide the money to be transferred and they even arranged collection so the user did not need to travel to any location. They were also accessible outside of normal business hours.</p> <p>Members of the Filipino community commented that registered providers were likely to request that their agents were also registered or require them to collect 100 points of identification when receiving monies from community members. However, unregistered providers were unlikely to seek identification details and usually requested a name, phone number and address but not proof of identity. One participant commented ‘[t]he provider we use will not ask for identification or a licence unless we are sending large amounts over \$20,000’ (ARS user personal communication 2008).</p> <p>The researchers suggested that feedback provided by the Filipino community indicated that very few ARS providers requested identification from individuals sending remittances overseas.</p> <p>Some legitimate Filipino providers were also being impacted by ‘questionable’ ARS providers. They were concerned about this impact on the reputation of providers as a whole. Comments included:</p> <p style="padding-left: 40px;">We are losing clients to providers that don’t request identification. These ‘back yarders’ attract people by offering better exchange rates but end up ripping people of by not sending the money (ARS provider personal communication 2008).</p> <p>Some Somali remittance providers allowed regular customers to phone and ask agents to send a remittance. They also commented that lack of identification documents did not impede a transfer and that trust and clan affiliations are used to determine who can use the system.</p> <p>Somali providers are aware that there are some ‘problem’ operators.</p>
Record-keeping	<p>ARS providers in these communities had a range of record-keeping processes. Those agents that operated a large full-time business had developed, and were working from, customised electronic databases, while some of the smaller providers kept records in hardcopy books, index cards or on an electronic spreadsheet.</p> <p>Those with customised database systems were able to record and extract information such as:</p> <ul style="list-style-type: none"> • a complete history of individual client transactions; • identification details of both the client and payee including bank account details and addresses; • percentage of clients who are local or interstate; and • who is sending the largest amounts over a period of time. <p>Our electronic database is updated daily and we can access all types of queries. It is also really useful for taxation purposes because we have immediate access to exactly how much money we are dealing with over any period of time (ARS provider personal communication 2008).</p> <p>Some providers used duplicate record-keeping processes, that is, a hard copy file as well as electronic file for each client.</p> <p>Providers with formal record-keeping processes also indicated that they regularly upgraded their systems to ensure compliance with regulatory/legal requirements.</p> <p>Not all ARS providers interviewed were willing to divulge details on the types of information they kept. Those that did respond usually kept the following types of records:</p> <ul style="list-style-type: none"> • sender’s personal details (name, date of birth, phone number, address etc), details of identity checks, amounts sent and destinations; and • recipient’s personal details (name, date of birth, phone number, address etc), details of identity checks and amounts received.

Table 6 Summary of typical ARS transaction, provider perspective—Somali and Filipino communities (continued)

Process	Description
	A number of providers used the MYOB package for their daily accounting activities, while others used less formal processes such as record-keeping books.
Transfer	<p>For the transfer process, providers generally performed one group transfer to each location at the end of each working day. These bulk transfers were undertaken telegraphically via the bank to the agent/office at the overseas destination for distribution. Remittances transferred each day were usually despatched at the end of each day.</p> <p>Where the ARS provider operated as the Australian agent for a larger international remittance company, the Australian agent deposited the money into a local bank account to be transferred into the corporate bank account located in the country where the company was based (along with information needed to reach the sender). The corporate account operated as a clearing house which then redistributed the money to the agent in the intended destination for redistribution.</p>
Collection	<p>Agents in the Philippines could be any number of individuals employed by providers and operate from business premises or on a mobile basis. One ARS provider indicated that they try to use local priests as their overseas agent when transferring door-to-door as they are less likely to be attacked by anyone that knows they are carrying money.</p> <p>A number of other methods are also used. These include:</p> <ul style="list-style-type: none"> • the customer visited the ARS provider directly to provide monies to be transferred. If the provider had a branch in the Philippines and monies were collected from this location, there was no agent involved in the process; and • increasingly, clients were using telephone and internet-based systems to access services, further reducing the need for using 'agents'. <p>ARS providers offered door-to-door services which was the only way money could reach families based in isolated areas with no infrastructure. This service was also preferred as it avoided the dangers associated with family members carrying money in public in the Philippines. One comment was:</p> <p style="padding-left: 40px;">We hear many stories about people going to pick up money from an agent and being robbed on the way home (Filipino ARS user personal communication 2008).</p> <p>However, providers also commented that they tried to avoid door-to-door service provision as agents were also at risk and had been attacked, so any money they carried could be stolen. Providers had put in place a range of processes to minimise the risk, such as rotating agents on a regular basis to avoid their roles becoming common knowledge locally. Another provider explained that door-to-door delivery was also risky as there had been instances of agents being robbed by remittance recipients after they had delivered their money and were on their way to the next client.</p> <p>With regard to Somali transfers, they sometimes occurred through door-to-door delivery. Agents in Somali villages usually had access to inhabitants in the villages and could deliver money quickly.</p>
Verification	Not available.

Source: consultations with Somali and Filipino community members 2008

Perceptions of the difficulties involved in the remittance process varied across the research, with some providers perceiving the process to be very time consuming and others viewing the process as simple and efficient. Several of the agents of larger organisations working with the Indian community said that the process was time consuming and hard to manage given that their primary business was a newsagency and post office, and that servicing customers for money transfers is time consuming and impacts their ability to serve other customers quickly. Some of these providers said that they

sometimes ask senders to wait while they serve other customers because the process is so time consuming. Many of the smaller ARS providers stated that the process was relatively simple and straightforward and that setting up the business and networks was the challenging aspect; once this had been done, the transfers were relatively quick.

The research also explored the level of training of staff and the results suggested that training was provided by larger agencies, such as Western Union, on a regular basis. For smaller businesses, limited

training (if any) was delivered, with providers discussing giving their overseas staff guidance via the telephone, or when visiting overseas. Training was not seen as important because many staff had been working in this area for a long time and also because staff were often family and were not seen to require training.

With regard to the Somali and Filipino communities the findings are summarised in Table 6.

All ARS providers servicing the Somali and Filipino communities indicated that they closely watched trends on exchange rates but were unlikely to notify clients unless a specific request had been made. Some customers contact providers seeking information around rate trends during the period in which they want to send money overseas and providers are usually able to offer this information. Providers generally set a daily rate each morning for transfers that take place on that day and it was unlikely to be changed, regardless of market movements throughout the day. These rates were advertised online by those providers who had a website. Where online transfer services were offered, customers could access adjusted rates throughout the day.

When ARS providers servicing the Somali and Filipino communities were asked to comment on how time consuming the process was, those who found the process more time consuming were more likely to run a professional full-time business and were better informed about compliance with regulations. Those providers who tended to collect detailed information and records of their activities usually had a set-up where staff performed specific roles.

Some of the ARS providers to the Somali diaspora who were interviewed were Australian-based agents of a larger international company (which would be seen as an ARS provider by AUSTRAC because it is ethnically-based) and so were required to comply with the Somali Financial Services Association (SFSA) *Anti-money Laundering Compliance Guide*. This impacted how much time needed to be allocated for service provision to each client. These agencies are expected to comply with a detailed range of processes and record-keeping requirements, including:

- procedures for customer identification and verification;
- undertaking of risk assessment processes, which may require the collection of detailed information about sender and recipient;
- undertaking of verification processes involving necessary documentation before a transaction can be processed; and
- customer identification files.

The SFSA *Anti-money Laundering Compliance Guide* sets out details of the expectations of the SFSA and agents/branches in each country are required to adapt to these to meet locally-based regulations.

It is important to note that there are actually two consecutive processes taking place with each ARS user that impacts the length of time providers take to conduct a remittance; one involves information and the other remittance.

The information process usually involves:

- collecting information about the sender (personal details, identification, remittance amounts);
- transferring information electronically;
- sorting information at the central location (if local provider is an agent);
- providing the agent at the recipient location with details for the recipient;
- collecting information and identification from the recipient;
- providing the sender with confirmation about delivery of payment; and
- updating provider records.

The remittance process usually involves:

- collecting money from the sender;
- depositing money into the relevant account;
- transferring money to a central account (if the local provider is an agent);
- transferring money to the payment location; and
- paying the recipient.

The majority of providers across all communities appeared to make at least some attempt to identify new customers (although there were certainly exceptions) and may resent those who do not because then the second group of providers could

unfairly lower their costs. Providers kept records (either written or electronic), but these records varied quite widely in nature and detail and often, providers had very little idea of how the remittance industry worked on a large scale, even when they acted as agents for large corporate remitters. One ARS provider commented that he was not sure if his sub-agents were following proper identification procedures. The consultations suggested that larger alternative remittance companies may share many of the characteristics of the non ethnic-specific corporate remitters and that some communities use a mixture of corporate remitters, large ARS providers and small ARS providers.

The identity and motivations of remitters

Filipino community

With regard to ARS providers who service the Filipino community, key research findings about such providers include:

- All the alternative remittance providers servicing the Filipino community in Australia are members of the Filipino community. There are over 100 providers currently in operation nationally.
- The majority of these providers operate as a small business, usually from home-based premises. Many initially started out as agents for other providers before branching out on their own.
- Within Victoria, all Filipino ARS providers are immigrants with the exception of one company. This company was initially set up by the current owner's parents.
- All providers indicated that money is only transferred in one direction—to the Philippines.
- A number of the providers were unwilling to provide feedback in relation to their registration status. These were generally the smaller providers operating from a home office.
- Most providers use agents at both ends of the process.
- Filipino ARS providers were reputed to provide the cheapest, safest, fastest, most reliable and efficient service for their clients.

Somali community

Key research findings about Somali community ARS providers included:

- Almost all the remittance organisations currently operating outside Somalia are owned and operated by citizens of the respective countries in which they operate. The owners/operators are Australian, North American, Canadian, British, French, Swedish, Kenyan and Ethiopian citizens. There are fewer than 15 operational Somali *hawala* owners nationally within Australia (ie owners/operators of Somali citizenship), while the overseas-owned remittance companies could be in the hundreds.
- There is clearly a close partnership and network of overseas *hawalas* and local Somali *hawalas*, which gives the impression that they are one and the same organisation.
- Although most clients are of Somali ethnicity, the client base does include a variety of African nationalities such as Kenyans, Ethiopians and Sudanese. Somali Remittance Companies (SRC) clients also include AusAID, UN Agencies and international non-government organisations operating in Somalia.
- While most money transfer destinations are within Somalia, SRCs do transfer money elsewhere including within North America, Western Europe, Arabia and Africa.
- On the whole, SRCs are legally registered, or in the process of legalising their status, and they pay taxes in every country in which they operate, including Somalia.

Vietnamese/Indian/Samoan communities

The primary motivation for the majority of providers for making ARS available was for the financial benefits it gave their business. Other motivations for ARS provision included that it helped attract customers to other aspects of the provider's business (eg the purchase of groceries or lottery tickets) and, within the Vietnamese community, one provider noted that 'it helps create employment for my relatives back in Vietnam' (ARS provider personal communication 2008).

Some providers were also motivated by a desire to help their communities by providing what they felt was a very important service. A number of Indian providers mentioned that while the service was important to their community, it was a time-consuming aspect of their business that they provided reluctantly. For many of the providers interviewed, money transfers account for a small part of their business, whether they acted as ARS providers or as agents for corporate remitters. This was true for all of the providers servicing the Indian and Samoan communities and many providers servicing the Vietnamese community.

Community perceptions of the risks associated with remittance

Indian/Vietnamese/Samoan communities

Many Indian, Vietnamese and Samoan consumers said that they would not use a provider that was not registered, but most said that they do not ask if the ARS provider is registered, or request evidence of registration.

When asked about their level of concern about how money transfers are currently conducted, there were mixed responses from respondents. Vietnamese users did not identify any concerns and, indeed, all of the participants reported that they had not heard of any misuse or abuse of money transfers within the community. While some participants felt that there are people involved in illegal activities through ARS, this was far removed from their own experience with the providers and others they knew who transferred funds.

In comparison, almost all of the Samoan participants were concerned about how money transfers were currently conducted, although this concern related to worries about losing money. It did not appear to be based on knowledge of people losing money, or their own experience of money being lost, but instead on a general level of nervousness about handling money and sending it overseas. For

example, almost all said that they had not heard of any misuse or abuse of money transfers within the community, although two people mentioned stories they had heard about providers. They had heard of cases where the recipient did not receive the full amount that had been transferred, and in one example, the recipient had only received half the money after four weeks, although the sender was told that the money had been transferred and that the recipient would receive it on the same day. The recipient is still owed the money. A Samoan provider said that there were concerns among the Pacific Island community that money was not received on time, although this was not raised by the consumers.

Similarly, most of the Indian participants were concerned when sending money overseas, especially initially, because of worries that they would lose their money.

I'm always a little nervous—will it go through, will I have to go back and do it again? (ARS user personal communication 2008).

A couple of users were also worried about delays and about the remittance organisation going bankrupt and losing their money as a result. Despite these concerns, many took comfort in having a receipt, as well as knowing that their friends had had no trouble in the past. A few also mentioned that they used larger organisations that were well-known and reliable to allay any fears. Around half of the Indian participants had heard of misuse or abuse of money transfers, although a couple said that this was not necessarily related to the Indian community. Stories that were identified in the research included:

Internet scams where a friends' friend gave bank details over the internet and money was taken from his account and not received at the other end.

I have read in the papers that people were sending money for illegal organisations, not in the Indian community, but in other communities.

Of course—[I have] heard of people sending money for drugs or to support illegal organisations, not to India necessarily. I have heard people talking (Indian ARS users personal communications 2008).

Users were asked what, if anything, they would do if they suspected that there was some misuse/abuse occurring among money transfer providers. All of the Vietnamese and Indian consumers said that they would do something as a result of this, while the results for Samoan consumers were evenly split. For those who indicated that they would respond if they suspected misuse or abuse, the most common response was to tell their friends and family and to stop using the provider. A few respondents from each language group said that they would report the behaviour to relevant authorities, such as the police.

Several Samoan consumers indicated that they were not sure what they would do and that they would not do anything unless they could prove the misuse of money transfers. A few were not sure if they would report the behaviour because they did not know how to file a complaint, because they were not sure of the consequences and 'no one will listen to you and you may end up in more trouble' (ARS user personal communication 2008) and because they were concerned about legal implications.

All except one of the remittance providers for these communities said that they had not had any bad experiences with customers when making a transfer. In the isolated case, someone had wanted to transfer a large amount of money but refused to provide their identification. The provider therefore refused to send the money, but did not report this to anyone. A few other providers said that they had refused a transfer on a few occasions primarily because of the restrictions of the business. For example, a Western Union provider said that they refused transfers of \$10,000 on two occasions because Western Union has limits on how much can be sent in one transaction. Another Western Union provider noted that their organisation does credit checks and that if a person has been blacklisted for any reason, they are not able to transfer funds for this person.

When providers were asked what they would do if they had a bad experience, such as if they suspected someone trying to transfer money for illegal purposes, all providers said that they would not transfer the money. However, there were mixed responses with regards to whether the organisation would report any suspicious behaviour. Slightly more providers said they would report it, with several

agents of corporate remitters saying they would report it to their organisation (such as Western Union), the police, the government, or relevant authorities. A few providers said that they would not report it because of concerns that this would have a negative impact on their business, or because 'the agency doesn't want to have an enemy' (ARS provider personal communication 2008). The research does suggest that providers rely on their intuition when assessing whether a case is suspicious and this lack of hard evidence, combined with concerns for their business, are likely to be significant barriers when it comes to reporting these cases.

There was little concern among providers about how transfers are currently conducted and, indeed, almost all of the providers had not heard any stories of misuse/abuse of money transfers within the community. There were a few cases where providers had heard stories, although not much detail was recalled (the cases referred to a provider from Melbourne and one from Sydney). For one case it was thought that the provider received a heavy fine and faced a jail term.

Somali/Filipino communities

The research regarding the Somali and Filipino communities suggested that these communities and the ARS providers that service them are aware of ARS providers (or more likely sub-agents) who are not registered and/or do not behave properly regarding issues such as customer identification. It was also noted that users do take precautions to ensure that the ARS provider or sub-agent they use is reliable. However, the research would suggest that community members have experienced nothing untoward when using ARS. For the Filipino community, this may be because the ARS providers are of the same ethnic group and the smooth operating of alternative remittance is very much a community concern. The community perceives ARS to be a crucial system for the maintenance and support of people in the country of origin.

In summary, the level of risk posed by remittance transactions varies between communities but even where there were concerns, participants had little or no personal experience of any trouble relating to the use of alternative remittance. The fear of misuse appeared to exceed the reality of its occurrence. The

consultations suggested that corporate remitters were likely to be aware of regulatory requirements and that alternative remitters were also sensitive to suspect transactions, although they were perhaps less likely to report them.

The advertisement of alternative remittance services

Vietnamese/Samoan/Indian communities

The research also explored advertising carried out by ARS providers. Most providers who service the Vietnamese, Samoan and Indian communities advertised in the ethnic press and community radio, to a lesser extent, while a few were also active in the community through sponsoring community events in Australia. One provider was also involved in supporting development in Samoa. Several providers no longer invested in advertising, as they felt they were already well-known in the community. One Vietnamese provider produces a CD every year for customers that includes a range of New Year songs and promotional information on the business.

Filipino community

ARS providers servicing the Filipino community use a range of advertising and marketing approaches to seek out their client base. These include:

- advertising in community newspapers such as *The Philippine Community Herald Newspaper* and *The Philippine Times*;
- internet—ARS provider websites and advertising on community-specific websites;
- shops that cater for the Filipino community—especially around the Footscray and Springvale areas in Melbourne;
- agency representatives networking and approaching community members at community functions;
- cold calling;
- word of mouth; and
- leaflets distributed at community functions.

The majority of ARS providers servicing the Filipino community are small businesses operating from a home-based location. A smaller number operate from their business premises which may also involve other activities such as importing and exporting or may focus specifically on remittance transfer.

While the actual ARS agency is responsible for transferring money between Australia and the Philippines, most of the ‘leg work’ involved in transfers is usually undertaken by agents. These agents are employed by the provider to recruit clients in Australia, collect money from clients in Australia and forward it to the ARS provider and distribute monies to recipient in the Philippines. Agents in Australia can include community members who perform this role as their main job, as well as shopkeepers, hotel staff etc.

Somali community

Within the Somali community, ‘word of mouth’ is the key form of advertising used to attract clients. Given the concentrated location of the majority of the Somali community in Victoria, word of mouth is a highly effective way of distributing information. The majority of ARS providers are also located in a shopping strip frequented by many members of the Somali community on a daily basis. *Dahabshill* is the longest established Somali remittance provider and has by far the largest share of the market. Types of alternative remittance systems regularly used by the community include:

- hand delivery—although this is reportedly diminishing as people are fearful of being robbed;
- cash delivery by specialised couriers;
- trade-based systems, where money is remitted via a trader;
- shopkeeper or travel agent who has other business with Somalia;
- remittance in kind (eg export of vehicles);
- *hawala*-type networks; and
- SRCs.

SRCs rely on a network of branches or franchises. Usually there are only a few salaried employees and the rest are agents who receive a percentage of transfer fees.

During the research process, respondents expressed the view that if these *hawala* operations are disrupted, hundreds of thousands of Somalis will face grave consequences given the perception that many Somalis in the country of origin rely heavily on this support for survival (even though some of those who visited Somalia seem to have formed a rather different impression). Moreover, if overly-restrictive regulation is imposed on the *hawala* agencies, it is likely to force these agencies 'underground'.

Provider perceptions of current trends in the remittance industry

The small number of participants suggested that any comments made about current trends in the alternative remittance sector (from a provider perspective) may not be entirely representative.

Providers of ARS to the Vietnamese, Samoan and Somali communities did have some comments about how demand for their services has changed over time. ARS providers tended to differ in their views, based on which community they were from and therefore predominantly serviced.

- Samoan providers felt that there was consistency with the number of recent transactions they had conducted, however, one provider commented that there were probably '[fewer] being conducted now than a few years back' (ARS provider personal communication 2008).
- Vietnamese providers were increasingly receiving money from Vietnam rather than only sending money to Vietnam. This was believed to be due to an increased number of international students from Vietnam studying in Australia. A few Vietnamese providers also stated that larger amounts were now being sent overseas, potentially due to the increased regulations for ARS providers.
- Most Indian providers felt that 'demand has increased—people see it as fast as and more convenient than bank' (ARS provider personal communication 2008). Indian ARS providers suggested that more favourable exchange rates may be a factor in the increase in demand.

Conclusion

Alternative remittance may be changing due to many factors, including technological advances (much of which is recent and involves delivery systems such as cards and mobile phones) and regulatory initiatives. The consultations suggested that a number of ARS providers were struggling to comply with new regulatory requirements. Nevertheless, ARS remains firmly entrenched and continues to address a need felt by many ethnic communities (a need that these communities see as perfectly legitimate). This was particularly the case for those who had had unfavourable experiences with banks in Australia or who, due to experiences in their countries of origin, were wary of dealing with the formal banking structure (and often, perhaps even more strongly with government regulatory and law enforcement bodies who might try to extort some or all of the remittance money).

There were a number of factors that influence the level and type of use of ARS. Proficiency in English and general levels of integration into the wider community may be important factors. Communities such as the Vietnamese and Filipino community placed more emphasis on dealing with ARS providers from their own communities. Samoan and Indian communities placed less emphasis, although even if they used the corporate remitters, the ethnicity of the corporate agent may also be relevant to their decision to use that particular agent. Although the large majority of use seemed to involve sending money to families for a variety of reasons, remittance was also used to send money to communities and to send money for business purposes (which could interlink with sending money to family members).

A number of factors were relevant to the decision to use ARS. While the emphasis on the ethnicity of the providers suggested that cultural factors were not without importance, the feedback from the communities generally demonstrated that the commercial factor was crucial, that is, ARS is quick, cheap and reliable. Many ARS users have had unfavourable experiences with banks or had found the performance of the formal banking sector (and in some cases the big corporate remitters) was inferior to that of alternative remittance in terms of cost and speed. Improved performance by the formal banking

sector (which would include branches of banks based in other countries) is likely to encourage more ARS users to use the formal banking system (rather than ARS). ARS was not always seen in a positive light by members of the ethnic communities that used it, although virtually none of those interviewed had had any unfavourable experiences with ARS. The consultations demonstrated that the issue was more that a number of later generation members of ethnic communities believed that it absorbed resources that could be better spent in the host country.

It was not clear to what extent the formal financial sector was interested in, or capable of, obtaining access to remittance work and whether the structure of formal financial institutions would lend themselves to remittance work where the amounts being sent are often small and the formal financial structure that receives the remittance in the host country has little or no presence in the country of origin (particularly in rural areas).

The comments provided by ARS providers were to the effect that, as a group, they were generally attempting to comply with regulations, although they could see no great benefit in doing so from a commercial perspective. ARS users were interested in the ARS providers being regulated (they assumed regulation would provide protection to consumers) and, at times, sympathetic regarding the cost of regulation to the ARS providers. They also saw a role for the government in helping address the cost of meeting the regulatory burden. They put considerable emphasis on the need for providers to comply with government requirements, although their knowledge of the nature and the basis to these requirements was minimal. Although there were concerns among ARS users about misuse of the remittance industry, there appeared to be little personal knowledge of such misuse actually occurring and the benefits of alternative remittance outweighed any perceived risk.

Illegal use of alternative remittance systems

Prior to 2001, the evidence relating to the misuse of ARS was, to a considerable extent, haphazard, although there clearly had been instances of misuse. In 2010, the situation is still unclear regarding the degree of involvement of money/value transfer businesses in criminal or terrorist activity.

The events of 11 September 2001 increased the level of interest in ARS. This interest expressed itself in a number of ways; one of which was the issuing by FATF of a number of international recommendations regarding the regulation of ARS.

It can be said that the threat presented by ARS is as much about potential as reality. One commentator recently emphasised:

...the qualities that make *hawala* popular among legitimate remitters also attract[s] corrupt officials and criminal actors seeking to launder cash and to make or receive illicit payments around the world. Like any financial medium, *hawala* can be abused. It is particularly susceptible since it operates in weak states and conflict zones, namely parts of the world where the capacity or will to regulate it is often lacking. It frequently mixes funds transfers, currency deals and trade transactions, while it handles large volumes in which criminal transactions are easier to hide. Several South Asian governments have attempted to contain *hawala* by criminalising it and cracking

down on those operating or using its services, since it allows the evasion of taxes, duties, currency exchange and capital controls. That their efforts have consistently failed reveals the strength of demand for *hawala*, as well as the flexibility of the system, which can adapt to maintain operations despite government repression (Passas 2008: 42).

The ARS system is particularly subject to misuse when the funds are collected or dispersed by ARS providers (especially if the customer is unknown to the ARS provider) and when the takings of a large number of ARS providers are consolidated by more senior ARS providers who have no direct contact with customers (Passas 2008).

Passas (2006) has also emphasised countervailing factors that may limit the misuse of alternative remittance, such as the disapproval of ethnic communities for any local ARS provider that brings the system into dispute. Excessive regulation may drive the practice underground (Passas 1999) and both the records kept by ARS providers and the records kept by formal banking structures of their links with ARS are of potential assistance to law enforcement. On balance, Passas (2008) now favours registration and possible licensing of ARS providers, but his changing views are indicative of the fact that there is as yet no clear evidence

regarding the level of criminality in alternative remittance systems or consensus about how any such criminality should be addressed.

There may be a number of indicators that indicate that an ARS is being misused (Passas 2005a). These indicators include:

- different commission rates being charged to different clients;
- different recording methods for some clients;
- no recording of some transactions;
- large sums being sent by single customers;
- different collection methods for different transactions;
- transactions diverging from the normal pattern associated with a customer;
- transfers to companies in very different businesses; and
- transfers to accounts of individuals or companies involved in illegal activities.

In some of the cases and issues discussed below, these indicators can be present, but they are not conclusive and can be subject to a number of interpretations.

The regulation of ARS poses some difficult questions. As well as the practical issue of how such regulation can be accomplished in an effective way, there is the question of what constitutes a proportionate response to any potential threat posed by the ARS system. Any financial system is subject to abuse. The question is whether the ARS system is subject to more abuse than others and what would be the impact of controls, including unintended impacts? The important role that alternative remittance plays in the lives of both individuals and communities cannot be ignored.

International typologies

ARS has attracted considerable attention from international bodies such as FATF and the APG in terms of their typology work on money laundering and to some extent on terrorist financing (APG 2009, 2008, 2001, 2000; FATF 2008c, 2008d, 2005a, 2002, 2000, 1999).

The misuse of ARS does not dominate these typology reports, which cover a broad range of institutions and activity. The typologies that involve ARS have become increasingly detailed and slightly more numerous as the practise of ARS comes under greater scrutiny, and does not necessarily demonstrate that misbehaviour by ARS providers has increased. In the typologies that involve misconduct by alternative remitters, such misconduct was often facilitated through the remitter in question having links with a formal financial body such as a bank. In other cases, an offender used both formal and informal financial institutions to launder funds. The offences reported involve far more criminal conduct, including but not limited to money laundering, than they do terrorism, although the fact that little detailed information on terrorist financial operations is released into the public domain means that it is difficult to assess the level of involvement in terrorist activity.

As an example, the *APG Yearly Typologies Report* (APG 2009) noted a number of trends regarding alternative remittance and links with money laundering and terrorism financing. The material provided by Australia included a comment in one case that when a number of PoDRS who were transferring proceeds of crime abroad were closed down, remittance levels quickly recovered through other channels. In another case, the exploitation of a sub-agency by a criminal group occurred when reporting obligations were not well understood by the sub-agency's staff and the principal agent (who controlled a large number of sub-agents) encouraged a relaxed attitude to compliance because it wanted to maximise commissions. The criminal group approached the sub-agency towards closing time in order to put staff under more pressure.

The *APG Yearly Typologies Report* (APG 2009) also listed cases of PoDRS trying to evade new reporting requirements by using tactics such as fictitious customer names. There was one report of a Pakistani national living in the United States using an unlicensed remittance network (a *hawala* network) to both launder money and conceal terrorist financing; money was sent to a number of jurisdictions, including Australia.

The concerns expressed by ethnic-community participants in the consultations carried out for this

study, and by law enforcement agencies, are reflected in the *APG Yearly Typologies Report* (APG 2009), particularly the relationship between principal agents and sub-agents (and particularly the poor training of sub-agents) and the potential for abuse when super agents have a large number of sub-agents which may need varying levels of monitoring and training.

Australia

Seven of the typologies set out in AUSTRAC's *Typologies and Case Studies Report 2007* involve ARS (AUSTRAC 2007a). The typologies range from using an ARS provider to send money overseas (in some cases, the ARS provider made a suspicious activity report regarding the conduct that was instrumental in it being detected by law enforcement; in others, the ARS provider deliberately did not comply with their IFTI obligations) to one case (dated 2003–04 and quoted from the *APG Annual Typologies Report 2003–04*) involving a complicated arrangement with a number of individuals and organisations in the movement of precious metals.

The AUSTRAC *Typologies and Case Studies Report 2008* (AUSTRAC 2008b) contains 15 illustrations relating to criminal use of ARS, as well as an emerging criminal methodology known as *cuckoo smurfing* which involves using an overseas criminal remitter to move money overseas. Although these typologies cover a broad range of criminal behaviour, there seems to be a number of emerging trends. The amounts of money sent were often small but there was a high volume of transactions, often by the same person who used a mixture of remitters and formal banking institutions to move money. In some typologies, the remitters were knowingly involved in illegal conduct and colluded in activities such as the falsifying of records or the structuring of transactions, but in others they appeared unaware of the criminality of the conduct (or became suspicious and reported it to AUSTRAC). AUSTRAC emphasise in the report that often the distinguishing factor that suggests criminality on the part of a customer is not the amount of money involved in a particular transaction, but the fact that the financial behaviour of a customer is 'inconsistent with the customer profile that has developed during the course of the business relationship' (AUSTRAC 2009a: 10).

The AUSTRAC *Typologies and Case Studies Reports 2009* (AUSTRAC 2009a) contains a number of cases involving criminals or criminal organisations that made use of remittance services with or without the provider's knowledge. In such cases, the criminals in question also frequently used other financial channels such as banks. One case involved a remittance corridor between Australia and Eastern Europe that originally started because there was no other way to send remittances. Once more formal banking channels had been established in the region, the corridor was largely taken over by a criminal group who used it for money laundering (AUSTRAC 2009a).

A number of Australian law enforcement bodies (ACC personal communication 2008; AUSTRAC personal communication 25 February 2008, 28 April 2008; CDPP personal communication 25 January 2008; NSWPOL personal communication 15 January 2008; VicPol personal communication 17 October 2007) have provided perspectives on the use of

Case 1

Azees Ansari and Haja Ansari were directors of Exchange Point (a currency exchange business) in Sydney. Under investigation since July 2003 by a joint group (AFP, NSW Police Force, NSW Crime Commission, ACC and AUSTRAC), Exchange Point operated as an ARS provider and had a number of contacts overseas, particularly in Singapore. Exchange Point received more than \$2.5m in funds to be deposited into Australian accounts. This was done in a 'structured' way, with amounts being deposited in less than \$10,000 lots. Exchange Point received orders detailing which accounts Australian currency was to be placed into.

Apparently, Exchange Point also received money from Australians. They used the Australian currency as a cash pool and then instructed overseas ARS providers to make money available to participating Australians when they were overseas. This was done over the phone, no records were kept and no cash left the country. The Ansari's built up a cash pool which they then deposited in various accounts in Australia when asked to do so by overseas associates. The Ansari's appealed their sentences to the NSW Court of Appeal who dismissed the appeals and imposed various terms of imprisonment in respect of the money laundering offences they were found guilty of.

Source: *A Ansari v R, H Ansari v R* [2007] NSWCCA 204 (14 August 2007)

Case 2

From 2005, a number of Australian agencies have been involved in Operation Gordian, an ACC led taskforce investigating money laundering and tax fraud. Over 70 people have been charged with a variety of offences, including ARS providers.

Those prosecuted included managers of the Long Than Money Transfer Company, which had offices in Melbourne and Sydney. The managers allegedly moved \$93m out of Australia. They allegedly failed to use taxation records, hid the identity of clients and used other ARS providers to help send money so that the amounts sent at any one time were diluted.

On 17 December 2009, seven people were sentenced in the County Court of Victoria to serve periods of imprisonment of up to 12 years for attempting to launder up to \$68m through Long Thanh and associated cash remittance businesses in Sydney and Melbourne. ACC Chief Executive Officer Mr John Lawler commented that the convictions sent a message to alternative money remitters that they must fully comply with the AML/CTF legislation (ACC Media Release 17 December 2009).

ARS with regard to criminal and terrorist activities. These comments can be summarised as follows:

- Currently, law enforcement agencies in Australia only have limited contact with ARS providers and only have cause to deal with them if there is a specific compliant or relevant investigation.
- Law enforcement bodies have experienced difficulty in making contact with ethnic communities particularly regarding issues that may have criminal implications.
- Corporate remitters can potentially pose concerns for law enforcement agencies due to the amount of money handled by these organisations, the contractual employment of super agents who are made responsible by the corporate remitters for the training of sub-agents and the sometimes poor standards and timeliness of suspicious activity reporting by corporate ARS providers.
- Law enforcement has concerns that new technologies could present considerable challenges and drew particular attention to stored value cards (SVC).
- ARS is very much community-based; there is little evidence of people using remitters outside their own ethnic community; it is possible that people using ARS providers of different ethnicity could indicate something unusual is occurring.

- Trust is crucial to the ARS system and that any breach of this trust could severely impact upon the ARS provider, so this may lessen the possibility of criminal behaviour by providers.
- The operation of an ARS business involves the congregation of large numbers of people and this can often be mistaken by police for illicit activity.
- ARS providers are often (although not always) highly-respected members of the community and one police officer commented that he was not aware of links between ARS providers and activities like money laundering.
- Some law enforcement bodies expressed support for a licensing system for ARS, possibly coupled with a 'fit and proper person' test; they believed the current registration-based system did not accomplish anything and did not deter illegality because individuals or companies could easily re-register under a new name.

However, some investigatory bodies expressed concerns over the activities of ARS providers and users. These concerns included:

- that ARS providers were sending value out of Australia but building up large cash reserves within Australia, which they may be tempted to use illegally;
- links between Pakistani ARS in Sydney and money laundering activity; and
- that some ARS providers operated using a two-tier fee structure; for suspicious transactions they charged substantially more commission.

Case 3

AUSTRAC referred a matter to law enforcement that subsequently led to the discovery of a drug lab which was connected to organised crime. The investigation revealed that money launderers had used their contacts to provide a remittance service to Eastern European residents in Australia who had no other way of sending money to families in their country of origin. The remittance activity continued as more formal banking channels were established, and increasingly, the ARS was used for criminal purposes. The remitting individuals concealed the remitting activity by meeting secretly to gather funds and then using third-party individuals and accounts to send the funds. The remitters also organised for other persons to purchase and then mail or courier bank drafts.

Source: AUSTRAC 2008b

The ACC has commented that

[i]n Australia, most money laundering occurs through the regulated financial system. Criminals also use both legitimate and illegitimate money transfer systems, professional facilitators and legitimate business enterprises to disguise their criminal proceeds (ACC 2007: 11).

Following concerns regarding the operation of ARS in Australia, the ACC is undertaking research into money flows in and out of Australia which may produce valuable insights into the operations of ARS. It cannot estimate at this stage how much money is leaving Australia via ARS without being properly reported. The ACC's concerns regarding ARS are partially based on features of the ARS system that they believe make it vulnerable to misuse. It also believes that the reporting standards of many remitters are not satisfactory (ACC personal communication 22 October 2008).

United States

The response of the United States to the events of 11 September was swift and had a number of consequences for MSBs, which included ARS providers. Under amendments introduced into the *Bank Secrecy Act 1970* by the *Patriot Act 2001*, MSBs were required both to register with Financial Crimes Enforcement Network (FinCEN) and to comply with all state licensing requirements. The possibility of requiring all MSBs to register had been raised in 1994 legislation but was never put into regulations.

Expert evidence presented at a hearing before the Subcommittee on International Trade and Finance of the Committee on Banking, Housing and Urban Affairs

Case 4

In November 2002, a money exchange business located in South America was implicated in the laundering of proceeds from illegal alien smuggling through several bank accounts in New York. The funds were remitted to companies and individuals in the United States. An individual was arrested and charged with both money laundering and operating an unregistered MSB. The activity had been detected through a US Immigration and Customs Enforcement (ICE) analysis of Suspicious Activity Reports (SAR; FinCEN 2004).

Case 5

In March 2006, ICE indicted individuals in the US District Court in Brooklyn for running an unlicensed MSB and smuggling money to Yemen. Members of the Yemeni community living in New York collected cash from other community members that they then gave to two lawyers and a real estate broker. The lawyers and the real estate broker wrote cheques for the equivalent amounts from their professional banking accounts and members of the Yemeni community then transported these cheques to Yemen without filing currency transaction reports (Gup 2007).

Source: AUSTRAC 2008b

of the US Senate in November 2001 emphasised that prohibition of alternative remittance providers was not likely to be effective and that it ran the risk of driving the system underground. While the evidence provided some information regarding the operational details of ARS, it showed there was little knowledge of any possible links with criminal and/or terrorist organisations (US Senate 2002).

The hearing was also presented with evidence by the US Customs Service regarding the al Barakat company, which was an SRC operating in the United States. In the aftermath of the 11 September attacks, al Barakat was accused of having financial links with al Qaida and its overseas remittance channel was shut down. The evidence presented at the hearing suggested that five percent of al Barakat's revenue went to al Qaida, but there was no guidance as to the methodology used to arrive at this figure (US Senate 2002). By 2006, only four criminal charges had been brought against al Barakat and none of them involved the financing of terrorism. The majority of al Barakat's assets that had been frozen in the United States after 11 September 2001 had been unfrozen after a court challenge.

A November 2002 report to Congress by the US Treasury recommended that there was, at the time, no need for further legislative change to the laws affecting MSBs (US Department of the Treasury 2002). It suggested that prohibition of alternative remittance activities would be counterproductive due to the risks of driving the practice underground and that the United States would be wise to follow the FATF Special Recommendation regarding licensing and registration. The Treasury also recommended that that education and outreach to ARS providers

Case 6

In January 2008, Sigue Corporation and Sigue, LLC of California (a money service business headquartered in San Fernando, California) agreed to pay US\$15m by way of a civil order penalty over the condition of its anti-money laundering (AML) program. At the time, Sigue had more than 7,000 agents providing money transmission services to Mexico and Latin America. Typically, these agents were small businesses. FINCEN determined that Sigue's AML program had failed to detect that over an extended period of time, 47 agents had assisted clients in the structuring of transactions so as to avoid the currency transaction reporting requirements of the Bank Secrecy Act (BSA). The transactions were allegedly linked to narcotics trafficking. In FINCEN's view, this failure was systemic and long standing.

Source: FinCEN 2008

would be more effective ways of addressing issues such as poor record-keeping rather than further regulation. The Treasury report stated that ARS providers had been involved in wrongdoing but it provided no detail as to what this may have involved. The report methodology involved interviewing law enforcement personal, some academics and remittance service providers (United States Department of Treasury 2002).

The 2002 report was quoted by the US General Accounting Office in its November 2003 *Report to Congressional Requesters* regarding terrorist financing (US General Accounting Office 2003). The report reflected concerns that recent increased regulation of the banking sector may have displaced illicit activity into alternative remittance systems. The report conceded that there was no real information as to the possible misuse of the ARS system and that the Federal Bureau of Investigation (FBI) and ICE needed to analyse the whole subject of terrorism financing more thoroughly, with the FBI to undertake further research on the subject. The report also expressed concern regarding the use of charities for terrorism-financing purposes. It made the point that increased regulation meant a greater workload for law enforcement agencies (US General Accounting Office 2003).

The United States released an interagency Money Laundering Threat Assessment (MLTA) in 2005 (US Department of the Treasury 2005). The working group who compiled the MLTA included Treasury

(including FinCEN and the Internal Revenue Service (IRS)), Department of Justice (including the FBI), Homeland Security, the Federal Reserve and the US Postal Service.

Findings included:

- MSBs offer an attractive alternative for both legitimate banking and money laundering and not many of them are registered;
- bulk cash smuggling is well entrenched and may be on the rise, with most of it associated with illegal narcotics;
- many of the more complex money laundering schemes involve the use of international trade.

The US Government responded to this document in 2007 with a *National Money Laundering Strategy* that focused exclusively on money laundering (US Department of The Treasury 2007). The strategy noted that banks and depository institutions are the primary gateways to the US financial system and that technological developments are increasing the difficulties these institutions face in identifying their customers. It also emphasised:

- the need to ensure greater registration by MSBs and, if necessary, attempt to harmonise laws;
- the need to focus on detection of bulk cash smuggling, particularly across the Mexican border; and
- a need to focus on trade-based money laundering.

Case 7

In July 2008, Dong Dang Huynh, the owner of the money remittance company US Tours and Remittance Inc trading as US Tours in Houston, was convicted for his involvement in an international narcotics scheme. US Tours received drug proceeds in the guise of legitimate remittances which it then sent to Vietnam with the intention to move them back to the drug manufacturers in Canada at a later date. The company broke the monies down into smaller sums to avoid reporting requirements, assigned fictitious names to these smaller amounts and attached false receipts to them so as to not to be detected by an IRS audit. The money was then deposited evenly by the company into domestic accounts and then finally wired to a remittance business in Ho Chi Minh City that was owned and operated by the offender's brother. During the course of the operation, over US\$24m was sent through to Canada (United States Department of Justice 2008).

Case 8

In July 2008, E Gold Ltd, an internet-based digital currency business, and its three principal directors and owners, pleaded guilty to money laundering and the operation of an illegal money transmission business. E-Gold allowed accounts to be opened without requiring customer identification and ordered untrained staff to monitor large numbers of transactions for criminal activity. The directors were aware of criminal activity and encouraged clients whose illegal activities had been detected to transfer money to other accounts. At the time of writing, the directors face the possibility of both fines and prison. The company has undertaken to comply with all federal and state registration and licensing requirements for MSBs and to put in place a money laundering detection program that will include verified customer identification, suspicious transaction reporting and regular supervision by the IRS (US Department of Justice Press Release 21 July 2008).

There have been a number of US cases and investigations involving alternative remittance. As has been discussed in the second section, a high proportion of cases involve the issue of registration. However, there are certainly cases involving major criminal conduct.

In summary, misconduct by MSBs of various kinds are an issue for the United States. However, there does not appear to be evidence of systematic misuse of the alternative remittance system. The regulatory system adopted by the United States is applied inconsistently to ARS providers (due to the

Case 9

On 22 April 2008, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) announced that it had designated a number of individuals and entities for acting on behalf of the Revolutionary Armed Forces of Columbia (FARC). FARC was designated as both a trafficker of narcotics and a terrorist organisation. Two of the entities designated under the April 2008 notice were Columbian money exchange businesses, who allegedly laundered foreign currency provided by FARC which was the product of drug sales. The two money exchange businesses then provided funds to FARC so that it could operate in Columbia. The designation freezes any assets these organisations may have in the United States and prohibits US businesses or individuals from dealing with them (United States Department of the Treasury 2008).

different states they operate in) and runs the risk of criminalising a large number of ARS providers because they have not complied with both federal and state regulations.

United Kingdom

The Serious Organised Crime Agency's (SOCA) identified money transmission agents, including ARS providers, as an avenue that criminals have used to launder money (SOCA 2007). The threat assessment did not provide details on how great the involvement was, nor did it distinguish how many ethnic-based ARS providers were specifically involved, as distinct from the rest of the MSB community. These concerns were repeated in the report produced by SOCA (SOCA 2009). The assessment noted that MSBs (including Bureaux de Change, money transmission agents and cheque cashers) were frequently used by criminals to launder the proceeds of crime and that, of these bodies, money transmitters were the most vulnerable to abuse (SOCA 2009). The assessment commented specifically on IVTS and identified them as a 'specific risk area where the

Case 10

Eleven people were jailed in 2008 on charges relating to the use of ARS to launder money. An HM Revenue & Customs (HMRC) investigation found that three firms (Bradford Travel Centre, Ramzan Travel and Watan Travel) had used ARS to illegally launder millions of pounds, much of which had been derived from drug trafficking. The investigation was based on a variety of factors including reports from financial transactions, reported large transactions by the three businesses and surveillance showing large sums of cash being dropped off at the firm's branches in Yorkshire. Estimates of the amount of money involved range up to £500m. Some of the defendants, in part, argued that there was little understanding of how much money a legitimate ARS could generate and that the amount involved did not, of itself, demonstrate any wrongdoing. They also commented that the cash had been accumulated by intermediaries and that they had no idea about the money's origins or how it had been raised. One defendant pleaded guilty to laundering millions of pounds through cigarette smuggling (*R v Liaquat Ali, Akhtar Hussain and Mohsan Khan Shahid Bhatti* [2005] EWCA Crim 87).

legitimate and criminal economies intersect' (SOCA 2009: 17). The SOCA assessment did not provide any details regarding how it had come to this conclusion.

Ballard (2003b) has commented at length on the issues raised by such prosecutions as he acted as a defence witness in some of the proceedings mentioned in Case 7 (see box). He suggests that the prosecutions have altered ARS provider behaviour to the extent that they have encouraged them to register. But he also suggests there may have been innocent reasons for some of the behaviour that generated suspicion, such as the movement of large amounts of cash. Ballard (2003b) emphasises that legitimate, large ethnic-based remittance operations can generate large sums of money and that the most rapid way to move this money is through the use of couriers; speed being one of the most economically-desirable factors in the choice to use ARS.

Ballard (2003b) also notes that ARS operators do keep records, but that trust is a factor in keeping down costs, and that trust to some extent may replace bureaucracy, particularly in the consolidation phase where more and more money is being brought together; a view which he shares with commentators such as Passas (2008). Ballard (2003b) emphasises that the 'trust factor' permeating the ARS system constitutes self regulation, although he is unable to quantify how effective such self-regulation may be, particularly if a system grows and involves people who have no direct knowledge of each other.

Case 11

In 2006, an individual was charged with operating an unlicensed remittance company, contrary to the Banking Act, by the Taiwan Chiayi District Prosecutors' Office. The individual allegedly established 57 accounts with nine different financial institutions for the purpose of engaging in laundering over NT\$18.3b crime proceeds (ie proceeds from fraud and gambling) from non-specific persons. The individual who allegedly earned commissions exceeding NT\$30.47m has yet to be sentenced. The case was a result of suspicious activity reports submitted by a bank (Money Laundering Prevention Centre 2007).

Taiwan

The Taiwanese remittance industry encompasses a large number of players and operational methods. Only banks are authorised to provide domestic or foreign remittance services, although they are allowed to establish agency relationships with foreign remittance service providers. Illegal underground banking continues (APG 2007).

Case 12

Reports submitted by Directorate General of Customs to the Chinese Ministry Justice and Investigation Bureau indicated that Yu, a Taiwanese citizen, was reportedly carrying physical cash amounting to ¥487.45m, US\$93,000 and KRW3.6m during his most recent 14 trips out of the country between October 2003 and October 2004.

Subsequent investigations revealed that Yu was engaged by a domestic unlicensed remittance company (Company A) to carry physical cash out of Taiwan to be handed over to Company A's Hong Kong's partner (also an unlicensed remittance company). Yu allegedly received a commission of 0.1 percent. The investigations also revealed that Yu and Company A were involved in another money laundering case. In the latter case, an individual named Lin and several others, allegedly defrauded several domestic banks using forged credit letters. He instructed the banks to wire a total of US\$42.8m to shell companies set up by himself and his associates. The crime proceeds were subsequently remitted back to Taiwan via Yu and company A (Money Laundering Prevention Centre 2007).

Trade-based money laundering

In 2006, FATF analysed the implications of trade-based money laundering, defined as:

the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins (FATF 2006: 3).

Methods used to do this may include multiple invoicing, over/under invoicing, fraud, counterfeiting, smuggling and false descriptions of goods (FATF 2006). FATF expressed concern that due to

Case 13

An ARS provider in the United States wanted to transfer funds to Pakistan in order to settle an account with a Pakistani ARS. He arranged a Pakistani exporter to over-invoice a US importer. The US ARS provider transferred funds to the US importer to compensate him for the over-invoicing. The Pakistani exporter used the extra amount he received through over-invoicing his US counterpart to compensate the Pakistani ARS. The criminal facet of the transaction is that the Pakistani exporter received a 20 percent Value Added Taxation rebate due to the over-invoiced price of the goods. (FATF 2006a)

the effects of displacement (ie the moving of criminal activity from formal financial sector activities, such as banking, to other forms of activity due to the impact of increased regulation of the formal financial sector), the criminal element would start using trade-based money laundering. Since ARS can involve the use of goods to pay remittances, it is possible that this aspect of ARS could be subject to abuse.

The cases mentioned throughout this section, and the typologies produced by international bodies such as FATF and the APG, appear to show that if ARS is misused, it is far more likely to be misused for criminal purposes such as money laundering the proceeds of crime (particularly drug crime) or evading tax or duty than for the financing of terrorism (although the limited amount of information released regarding terrorist investigations makes any risk hard to evaluate). It has been suggested that Al-Qaida has used ARS networks operating in Pakistan, the United Arab Emirates and throughout the Middle East to raise money, particularly after it moved into Afghanistan in 1996 and that ARS providers and charities in Saudi Arabia are used to raise money for terrorist operations (Suskind 2006). At this stage, there is little factual detail regarding these assertions and this makes them difficult to evaluate.

Vulnerabilities of Australian alternative remittance systems

The first major point of vulnerability in the Australian system is a lack of knowledge regarding basic issues relating to alternative remittance—as the

number of remitters, where they are currently trading and where they are located is not currently mapped. This vulnerability is not unique to Australia, although the fact that, until recently, Australian law enforcement and prosecutorial bodies paid relatively little attention to alternative remittance as a separate issue may increase this vulnerability. At this stage, law enforcement and regulatory activity in relation to alternative remittance is reactive rather than preventative.

A second point of vulnerability is the difficulty Australian law enforcement bodies may encounter in establishing contact with ethnic communities. Consultations suggest that ethnic communities may be prepared to liaise with regulatory and law enforcement bodies if the contact is established through suitable intermediaries.

AUSTRAC has suggested that many businesses in the MSB sector are not compliant with current regulatory requirements relating to issues such as customer identification and AML/CTF programs (AUSTRAC 2009b). There may be many reasons for this, including poor English-language skills and lack of knowledge in dealing with bureaucracy. Innovations, such as AML/CTF programs, require both resources and staff training and this may tax the capabilities of many alternative remittance providers.

AUSTRAC has stated that it will target remittance providers, as appropriate, and that it will be focusing on major remitters such as Western Union and Australia Post on the grounds that these bodies (or rather their agents) undertake most of the relevant transactions (AUSTRAC 2009b). Intelligence upon which to make targeting decisions may be provided by IFTIs and SARs to some extent and there is the possibility that the communities that use these services may also be a source of information if they are correctly approached.

Displacement

It has been assumed that increased regulation of the formal banking sector will lead to the displacement of at least some criminal activity to the informal sector. In this scenario, criminal groups (including terrorists) would make a tactical decision to move money through the informal sector (particularly ARS),

rather than the formal financial sector (particularly banks). This reasoning has been used to justify the increased level of regulation of ARS providers. However, there may be a number of flaws in this assumption. First, the model is predicated to a considerable extent on there being relatively separate formal and informal sectors. The available evidence is that the two sectors intersect constantly. It should also be noted that the informal sector includes activities such as physical cash movement. On the basis of various typology reports, it is suggested that criminals often use both systems, depending upon which is more convenient in a particular set of circumstances (possibly not dissimilar to the way that individuals decide which form of remittance service they are going to use to send value.

Second, it could also be argued that the current risk-based approach in Australian regulation may not necessarily 'displace' activity neatly between formal and informal sectors of the economy. A risk-based approach puts much of the onus for estimating risk on reporting entities (including ARS providers)—a fact noted by both FATF and AUSTRAC (AUSTRAC 2009b; FATF 2009). The response to this challenge is unlikely to be uniform, even between entities of roughly the same size or in the same financial sector. Some will be more effective in introducing customer identification procedures and AML/CTF procedures than others and some will be prepared to spend more on compliance than others. It may well be that criminal elements target entities that are seen as being less effective in managing risk, whether they are formal or informal in nature.

Finally, both academic evidence and the AIC consultations suggest that, for a number of reasons, ARS may not always be suited to criminal activity, or at least there are countervailing factors that may lessen the chance of its misuse by criminal or terrorist elements. These countervailing factors include evidence suggesting that small ARS providers are often personally familiar with their customers and that communities who use alternative remittance are concerned to ensure that this system is not compromised by criminal conduct. There is some anecdotal evidence from the consultations that users avoid ARS providers whom they suspect are not behaving honestly. Although it is not easy to quantify these factors, they are relevant to the quantification of risk.

Conclusion

ARS has generated considerable concern from academics, regulators and law enforcement regarding its potential for misuse. This concern has some factual basis as the above cases and typologies demonstrate. As yet, there is no consensus on to how best regulate the remittance industry. It appears that much of the activity of concern relates to criminal behaviour rather than behaviour linked to the financing of terrorism. There has certainly been some penetration of remittance services by criminal elements and a number of ARS providers basically operate as a front for criminal activity. This arrangement may be both more efficient and less risky for criminal elements than trying to penetrate a community-based remittance network. The use of agents and sub-agents by both corporate and ethnic-based remitters increases the risk that an agent or sub-agent might take part in criminal activity without the knowledge of a principal. Australian law enforcement bodies do have concerns regarding the operation of the remittance industry (both corporate and alternative remittance), but they lack detailed knowledge because the remittance industry has not, until recently, received focused attention.

With regard to terrorist financing, the biggest risk may be for users who inadvertently (or at times, wilfully) provide financing for terrorist activities when they send remittances overseas to relatives without having a detailed knowledge of what the relative is doing with the remittance. This issue is made even more difficult when a terrorist organisation uses funds for purposes such as education, health or schooling rather than direct terrorist action. There is also the possibility that liability for such transactions would also extend to providers of remittance services. The information relating to terrorism activities and prosecutions is limited and so it is not possible to determine the level of involvement by the alternative remittance sector in this regard.

Attempts to identify signs that ARS services are being misused are important, but they do not provide conclusive evidence of illegality and can be subject to misinterpretation. The payment of small regular amounts can be associated with payments to family and communities in countries of origin, but there are legitimate reasons for the payment of large amounts such as community members pooling resources

together to send a large amount for a particular occasion such as a festival, wedding or funeral. The size and/or regularity of payments can provide some guidance as to the possible purpose behind them, but any interpretation needs to be cognisant of the nature and patterns of behaviour of a community.

The evidence discussed in the typologies and cases in this section suggests that there are, in reality, several flows of alternative remittance currently operating. The larger flow is generated by expatriate populations; the smaller by criminal activity. The flows do intersect; for instance, the same ARS provider can potentially service both flows. However, communities are likely to know the identity of at least some of these ARS providers and avoid them.

Community members may be wary of reporting such providers to regulatory or law enforcement bodies for fear of reprisals, even though they may personally have had no unfortunate experiences when using ARS. There are points where the remittance process is likely to be particularly vulnerable to misuse—academics have emphasised the vulnerability associated with the consolidation stage, where remittance funds are mixed together. The typologies have demonstrated the links between the formal and informal financial systems and the importance of reporting suspicious transactions. The reliance placed on such reports suggests that there would be benefit in making reporting as simple as possible.



The regulatory response

There is considerable debate regarding the methods by which private sector organisations should be regulated (assuming they should be regulated at all) and what the various forms of regulation can hope to achieve. This issue is of relevance to the regulation of ARS. In Australia, debate is taking place in the context of the public policy desire to obtain the benefits of efficient competition and to avoid anti-competitive conduct such as the unnecessary restriction of entry into the market and excessive regulation that might stifle competition (Bensoussan & Myers 1996).

The traditional perception of regulation has generally been punitive (Grabosky 1995) and as one commentator has pointed out:

Regulation is the sustained and focused attempt to alter the behaviour of others according to defined standards or purposes with the intention of producing a broadly identified outcome or outcomes, which may involve mechanisms of standard-setting, information-gathering and behaviour modification (Black 2002: 20).

For example, professions have a number of ways of regulating themselves and enforcement action (either by an internal regulatory body or by an external regulatory or law enforcement agency) is usually seen as a last resort. The method of regulation depends upon a number of factors, including the length of time that the profession has been

recognised as a profession, the prestige that the profession enjoys in the community and the nature of the work undertaken. Traditionally, professions such as medicine and law have enjoyed considerable autonomy.

Professionals can be characterised as a group of people who are trained to do a specialised task that is too complicated for an untrained lay person to undertake. This specialisation may provide them with a level of prestige and autonomy in their work practices. If they are supervised at all, they are supervised by more senior professionals who have undertaken the same sort of training. Professionals tend to be both represented and regulated by a professional body made up of the professionals themselves. This professional body often has a role in ensuring that unqualified people do not practice in the profession (Smith 2002). Professions such as law may also require that a practitioner be a 'fit and proper person' and that they maintain this status throughout their career.

Many professions use codes of ethics to regulate the behaviour of their members, although professions have an indifferent record with the regard to the enforcement of such codes of conduct (Coady 2002). Governments can encourage professions to establish codes of conduct as an alternative to statutory regulation (Carlton 2002). This may be less expensive than statutory regulation.

An increasingly popular model of regulation is that of 'co-regulation'. This is a system of regulation where the relevant occupation is involved in the administration of the regulatory scheme. It differs from self-regulation in that co-regulation often involves people drawn from outside the practitioner group and its workings are not purely determined by the professional group being regulated (Bensoussan & Myers 1996).

Governments are more likely to become involved in co-regulation, or to set up external regulatory and enforcement regimes if they believe the level of risk and/or the seriousness of consequences that may flow from a breach justifies the expense. In the case of AML/CTF, the perception is that the consequences of deviance are serious.

The regulation of ARS within Australia presents government with a problem, in that ARS providers are not represented by any industry body (unlike in the United Kingdom with the UK Money Transmitters Association, or the United States with the National Money Transmitters Association), nor are they guided by any industry code of ethics. There are also no industry bodies able to stop individuals or companies performing this role if they are not recognised. This makes the implementation of co-regulation very difficult and it also makes the formulation of a code of ethics problematic; any such code is likely to be the creation of the regulator.

The consultations undertaken suggest that ethnic communities who use remittance providers (both corporate and alternative remittance providers) have a considerable interest in ensuring that remittance systems are honestly run and not linked to criminal activity. There are ambiguities connected with this concern; users of alternative remittance want to ensure that this method of remittance remains as cheap as possible and more extensive regulation may compromise this. Nevertheless, it is possible that community involvement in some form of co-regulation for ARS may be effective as an approach for regulating ARS, particularly if it was linked to involvement by providers and sponsored by government.

With regard to the regulation of ARS, commentators have expressed a wide variety of views regarding the suitability of the FATF Special Recommendations to regulate ARS operations. FATF guidance regarding

the implementation of Special Recommendation VI, which specifically concerns the operation of money/value transfer, emphasises that governments need to ensure that whatever regulatory system they adopt does not impose undue burdens and does not lead to money/value transfer going 'underground' (FATF 2003b). There has been a large increase in regulation of ARS since the terrorist attacks of September 2001 and much of this regulation (particularly in the case of the United States) was introduced quickly and with perhaps little time for reflection.

Many commentators have emphasised that remittances play a vital economic role for both individuals and developing countries (leaving aside the issue of whether remittances are always used for a rational or economically-productive purpose) and that in policy terms, there is considerable interest in further increasing the speed and decreasing the cost of the remittance process (Buencamino & Gorbunov 2002; Passas 2005b). However, the events of September 2001 have led to the formation of a competing policy interest that involves minimising the possibility of criminals or terrorists making use of the ARS system. Balancing these two concerns is very difficult. The effects of unsuccessful regulation can include increased remittance costs, lower numbers of remitters in the market and the alienation of both the remitters and possibly wider ethnic communities (Passas 2005b).

There is some evidence that there is a considerable degree of self-regulation and community regulation in the ARS system. In Afghanistan, the ARS system certainly had a long history of independence from regulation. During the Taliban period in Afghanistan, the banking system was inoperable and the *hawala* system (not regulated by government) was the only effective way to move money or value. Following 11 September 2001 and the fall of the Taliban, the situation changed. International concerns regarding terrorism (and links with narcotics) meant that the ARS system could not be left unregulated. As a result, the Central Bank of Afghanistan introduced a licensing system that also involves a 'fit and proper person' test. This regulatory system is more onerous than many developed financial systems. Although it is not clear to what extent Afghan remittance providers have been involved in wrongdoing, the international situation makes it politically imperative that regulation be introduced (Maimbo 2005).

The primary aim of SR VI is to increase the transparency of the ARS system, but it is doubtful whether this will occur in view of factors such as ARS being illegal in some jurisdictions and not others and that a typical transaction can involve multiple, interlinked transactions and intermediaries (Maimbo 2004). One suggestion is that registration for ARS providers be used where ARS operates legally, but that jurisdictions should consider encouraging users to use the formal sector by offering initiatives such as accounts that are not subject to foreign exchange regulations. However, this may only appeal to workers with relatively high incomes (Maimbo 2004). Initiatives may also involve the need for substantial government/private financial sector cooperation and this would not address issues such as foreign workers not being able to satisfy a bank's identification requirements.

Maimbo (2004) has emphasised that any regulatory approach needs to take into account a wide variety of social and economic factors, including:

- the economic role of ARS;
- that ARS often operates in countries where there is no effective legal or financial system; and
- that ARS often provides links between specific communities, such as between ethnic communities in individual cities in the United States and individual towns in Mexico.

Strategy comprising a mixture of regulatory and incentive-based approaches is likely to improve the knowledge base regarding ARS and potentially encourage people to use the formal, instead of the informal, sector. However, such an approach is very time consuming. It is also unlikely to lead to harmonisation of laws between jurisdictions and may well have the opposite effect as jurisdictions try a mixture of strategies depending on their circumstances.

Other commentators (eg Shah 2007) have emphasised the need for international standards to address a number of administrative and social issues. These should address:

- definitional issues;
- the need for international cooperation and coordination;
- the need to ensure that informal transfer systems remain viable for legitimate users;

- the need to monitor informal transfer systems;
- the need for standardised record-keeping;
- the need for transfer and settlement methods to be monitored;
- the need for standardised customer policies;
- the regulation of informal transfer business organisations and interconnections; and
- the sanctioning of informal transfer operations (ie those who have not complied with relevant regulatory frameworks).

The issues raised by Shah (2007) and others are important, but their suggestions may contain an element of impracticality. It is difficult to see how any international system that is attempting to provide jurisdictions with general regulatory AML/CTF principles could take into account so many issues. FATF's Special Recommendations have been criticised on the grounds that, in many ways, they attempt to impose upon issues (such as the possible links between the operation of value transfer systems and terrorism financing), the same regulatory structure that is advocated for money laundering (Roberge 2007).

However, it should be noted that the FATF has conceded from the beginning that individual jurisdictions need to take account of their own circumstances as they consider the application of the FATF Recommendations and Special Recommendations to issues such as ARS (FATF 2003a, 2003b, 2003c, 2003d). It should also be noted that the emphasis of the FATF material is on AML/CTF issues, not consumer protection. It is possible that consideration should be given to widening the interest in the remittance sector to include consumer protection issues, which would address user concerns and possibly encourage greater community involvement in informally policing this sector.

A number of commentators have suggested alternative transfer systems flourish fundamentally because of certain economic and commercial realities (Buencamino & Gorbunov 2002) and that until those economic and commercial realities are addressed, alternative transfer systems will continue to be used. Ironically, applying FATF's 40 Recommendations and Nine Special Recommendations to ARS can be seen as an

attempt to make them more like formal institutions. The implementation of initiatives such as customer due diligence (CDD) and AML/CTF programs involves a much higher degree of bureaucracy and cost, which could reduce the cost and speed advantages currently enjoyed by ARS. At the same time, any serious attempt by formal institutions to increase their involvement in the remittance industry means they may have to address the issues of reducing cost and bureaucracy and in a sense become more 'informal'.

Regulation in Australia

Under the FTR Act, ARS providers (who were included under the definition of *cash dealer* contained in s 3 of the Act) had a number of reporting obligations. The FTR Act requires cash dealers to report certain transactions and transfers to AUSTRAC. These transactions and transfers include suspect transactions (of any amount), cash transactions of \$10,000 or more (or the foreign currency equivalent) and IFTIs. When FATF conducted a mutual evaluation of Australia in 2005, it rated Australia as only partially compliant with SR VI (FATF 2005b). FATF made a number of criticisms of the FTR Act's effectiveness in regulating such services. The criticisms included the lack of a general licensing or registration system and the limitations caused by the FTR Act's emphasis on terms such as *cash dealer* and *account* (Deitz & Buttle 2008).

Partially as a result of the criticisms contained in the FATF mutual evaluation, Australia's regulatory arrangements relating to ARS have been revised by the operation of the AML/CTF Act. The AML/CTF Act was introduced to bring Australia's AML/CTF regime into accordance with FATF's Recommendations and Special Recommendations and to reduce the risk of Australian businesses being misused for the purposes of money laundering or terrorism financing.

The AML/CTF Act is risk-based. It requires regulated entities who provide certain financial or gambling services (designated services) to fulfil requirements relating the identification of customers before the service is provided and the reporting of certain transactions (eg suspicious matters, transactions over a certain threshold value and international funds

transfer instructions). The AML/CTF Act places financial institutions under considerable responsibility with regard to AML/CTF programs. Financial institutions must develop their own programs based on their own perceptions of their level of risk of being the target of criminal and terrorist activities. Section 6 of the AML/CTF Act lists services that are classed as designated services and these services include designated remittance arrangements.

Section 10 of the AML/CTF Act defines a *designated remittance arrangement* as one where both the person who accepts the money or property, and the person who makes the money or property available under the remittance arrangement, are not authorised deposit-taking institutions, banks, building societies, credit unions or persons specified in the AML/CTF rules. This is a broad definition that covers both trade and money based remittance activities.

Under the AML/CTF Act, PoDRS must register with AUSTRAC (which places them on the PoDRS register), implement customer identification procedures, put in place AML/CTF programs, report to AUSTRAC annually regarding their compliance with the AML/CTF Act and undertake ongoing customer due diligence (OCDD). These requirements apply to principals and may also apply to those who are acting as the agent of a principal, because under the AML/CTF Act, all are potentially providing a designated service. Section 37 provides that applicable identification procedures may be carried out by the agent of a reporting entity and the reporting entity can rely upon its agent to perform this function and can use this identification to fulfil reporting obligations regarding customer identification. These requirements have been introduced in stages and the last of them relating to OCDD went into effect in December 2008.

In December 2009, AUSTRAC announced that it was considering amending the rules made under the AML/CTF Act to allow reporting entities that are either a representative or sub-representative of a money transfer service business, and who provide a registrable designated remittance service through that provider, to form a designated business group. A designated business is defined under the AML/CTF Act as a group where two or more businesses join together to share obligations under the AML/CTF Act. These obligations can include the maintenance of a joint AML/CTF program (AUSTRAC 2009c).

Under the AML/CTF Act, PoDRS are the only providers of designated services that have to register with AUSTRAC. However, the registration requirements are modest and basically only involve name and address (although they have to submit reports on various kinds of transactions; other designated service providers also have to do this). The aim behind the registration requirement is simply to identify who is a 'player in the market' and to bring Australia into line with FATF guidelines.

There is the potential for the new requirements for PoDRS to cause confusion, particularly among those providing alternative remittance, as distinct from the major corporate remitters. First, many PoDRS do not realise that the requirement to register with AUSTRAC and provide an annual compliance report to AUSTRAC are quite separate to any reporting requirements relating to individual transactions. Second, many PoDRS may well have no knowledge of money laundering or terrorist financing issues and thus have no basis upon which to gauge their exposure to these risks. Therefore, they would find it very difficult to devise an AML/CTF program.

One solution may be for principals to draft AML/CTF programs and provide them to their agents, but this would nevertheless incur expense for all parties. It might also be difficult for a principal who has a large number of agents spread over a wide area (possibly a number of states) to devise an AML/CTF program which would address every issue faced by each agent, so to some extent, individual agents would still have to estimate their own level of risk. From a principal's perspective, there is also the issue of how to ensure that each of their agents has registered with AUSTRAC and adopted an AML/CTF program.

The AML/CTF regime places ARS providers under greater 'know your customer' (KYC) obligations and these obligations are crucial to the AML/CTF regime. Yet many ARS customers are wary of customer identification requirements (often due to their cultural background) and are physically located some distance from their ARS provider (which makes customer identification difficult even if the customer is cooperative). The consultations demonstrated that at least some customers contact their ARS provider by telephone or electronically. ARS providers can

use third-party database services to try to identify their customers, but these services can be expensive, particularly for a small operator.

The fact that for many PoDRS the provision of ARS is very much a secondary business (which may be seen as a community service rather than a money-making venture) means that the increased cost of compliance may lead to many ARS providers abandoning the practice. This possibility will increase if they are struggling with language issues and finding it difficult to understand, as well as expensive to meet, their new obligations (AUSTRAC personal communication 25 February 2008).

There is some support within regulatory and law enforcement bodies in Australia for increased regulation in the form of measures such as licensing and 'fit and proper person' tests. However, it would involve a much higher degree of government involvement in the regulation of ARS and would potentially be both expensive as well as divisive. Government would also potentially be placed under pressure by ARS providers and users to help meet the extra expense. In a sense, a licensing regime and a 'fit and proper person' test would be more of the same sort of regulation that has already begun with registration and would involve the same sort of risks. ARS has survived many attempts at regulation and the experience of jurisdictions such as India confirms this. The feedback from community participants suggests that they would not appreciate a non-consultative, heavy-handed approach to regulation and may well support ARS providers who respond to such regulation by going 'underground'.

In 2007–08, AUSTRAC published a number of electronic resources on its website to assist remitters. These include a guidance note, a Public Legal Interpretation, an e-learning module and PowerPoint presentations aimed at both principal remitters and their agents. AUSTRAC has also conducted 81 training and awareness sessions aimed at remitters (AUSTRAC 2008a).

In its supervision strategy of 2009–10, AUSTRAC comments that the MSB 'is known to be prone to [money laundering/terrorism financing] activity, though the likelihood of individual businesses being targeted for [money laundering/terrorism financing] is moderated when sufficient programs and controls are in place' (AUSTRAC 2009b: 12). Although

AUSTRAC and other organisations have produced typologies that demonstrate that the MSB sector has been involved to some extent in money laundering (and to a lesser extent in terrorism financing), it is not clear why AUSTRAC would suggest that the money business sector is 'prone' to such activity.

AUSTRAC notes that the sector is a mixture of high-risk/moderate likelihood of being abused for money laundering and terrorism financing activities and states that it intends to focus its activities on major remitter's networks such as Australia Post and Western Union and foreign exchange dealers such as American Express and Travelex. This seems to be on the basis that this will enable AUSTRAC to cover the majority of reporting entities in the sector.

With regard to unaffiliated entities (which would include many ethnic-based alternative remittance providers), AUSTRAC noted during consultations that it has experienced difficulty identifying and locating such bodies, who are not subject to licensing, have no industry association and may experience substantial language barriers in dealing with AUSTRAC, who attempts to deal with this part of the MSB sector through targeting and representative sampling.

With regard to the impact of the AML/CTF legislation, AUSTRAC notes that many businesses in the sector do not have AML/CTF programs or adequate customer identification programs and do not conduct adequate risk assessments (AUSTRAC 2009b).

On 4 November 2009, AUSTRAC issued its first remedial direction to an ARS provider. This arose as a result of non-compliance with AML/CTF legislation by failing to have an effective AML/CTF program in place. Under the terms of the remedial direction, the non-compliant provider is now required to submit to AUSTRAC an AML/CTF program that assesses its exposure to AML/CTF risks and, in doing so, takes account of issues such as the types of customers dealt with, the services offered, its methods of delivering these services and the foreign jurisdictions it deals with in the course of its business. The remedial direction stipulated that the provider is to perform background checks on staff and train staff regarding relevant AML/CTF risks and that the identification and verification requirements (AUSTRAC 2009d).

On 18 December 2009, AUSTRAC advised that it was considering introducing a rule which would allow the AUSTRAC chief executive officer (CEO) to remove or to refuse to enter into the PoDRS register a person's name and registrable details if the AUSTRAC CEO has formed the opinion that having this information on the register would constitute an unacceptable money laundering or terrorism risk. If introduced, this rule would apply to individuals, body corporates, trusts and partnerships and any representatives of those persons.

This rule would also apply to a person in respect of whom an order had been made under s 19B of the *Crimes Act 1914* (Cth) or under a corresponding provision of a state, territory or foreign country in relation to the offence. This means that when a person or a representative is charged before a court with an offence mentioned in these rules and the court is satisfied, in respect of that charge, that the charge is proved, but does not proceed to convicting the person, the person is deemed to have been convicted of the offence.

Under the proposed rule, the AUSTRAC CEO would have to provide a written notice to the person within seven days advising of this refusal or removal. A person must be advised that they have 28 days to make a submission regarding the decision. Then AUSTRAC must have regard to any such submission and can discuss it with any appropriate person in order to ascertain the truth of the matter (AUSTRAC 2009e).

Attitudes towards Australian regulation— results of consultations

User perspective

Samoan/Vietnamese/Indian communities

With regard to the Samoan, Vietnamese and Indian communities, awareness of the AML/CTF regulations among ARS users appeared to be low. None of the Samoan or Vietnamese consumers were aware of the government regulations and none asked remittance providers (either corporate or alternative remitters) if they were registered with AUSTRAC.

Some Indian consumers were aware of the regulations, although there was an assumption that there would be regulations, as 'there has to be safeguards in place' (Indian ARS user personal communication 2008). For example, while a few had asked the provider about their registration, most of the Indian consumers had not, primarily because there was an assumption that the providers would be registered. Some indicated that they did not ask because:

- they received a recommendation from a friend;
- because they received a receipt with an Australian Company Number; or
- because the organisation was reputable and well-advertised, therefore alleviating the need to ask about registration.

Despite the limited awareness of government regulations, there were some concerns expressed about potential problems if providers were not registered. All of the Indian ARS users said that they would not use a provider who was not registered, even though most had not asked their provider if they were registered. There were concerns among these users that there would be risks in transferring money with an unregistered provider, as users would not know where the money was going and the provider would not be accountable. Comments from ARS users included:

I only use a proper registered provider, not some small dark service in the back corner of a shop.

I wouldn't take that risk, I want to be in safe hands (ARS users personal communications 2008).

Similarly, most of the Samoan respondents felt that it would be problematic if the provider was not registered, although none of the Samoan consumers were aware of the regulations or had asked their providers if they were registered. Using an unregistered provider was seen to be risky (especially for large sums of money) and offered limited protection, as providers would not be accountable and it would be difficult to claim money back if it went missing. It was also considered that having unregistered providers would make it difficult for government to monitor their activities.

Vietnamese ARS users considered that it would be a problem if a provider was not registered if the transfer money was lost and had a preference to 'deal with a legitimate provider for peace of mind and tax purposes' (Vietnamese ARS user personal

communication 2008). Again, these results have to be considered within the context of limited levels of awareness of the regulations among these participants.

In terms of the impact of government regulations on consumer behaviour, researchers found this issue was difficult to explore due to limited awareness of the regulatory environment. However, based on feedback during the discussion of the impact of regulations, it appeared there was an assumption that there were regulations in place and these offer protection to consumers. The fact that current regulation is focused on AML/CTF issues, not consumer protection, was not widely appreciated.

Filipino community

With regard to the Filipino community, a number of findings emerged regarding the perspective of community members who use ARS. One ARS user commented:

The use of alternative remittance systems within the Filipino community can be done by phone, cash or the internet. What is lacking in the process is the 100 point check. The providers should be using the same systems as the banks but most of them are not. You can go to a provider and give false information about yourself because you are only interested in the money reaching its final destination (Filipino ARS user personal communication 2008).

Discussions with leaders representing the community indicated that the quality of the alternative remittance system broke down because of the users (presumably those users who are trying to use ARS arrangements to avoid reporting transactions) or 'sub-agents' who remained largely unaccountable due to their unofficial status. It is important to note that while this might be the case for the majority of agents, participants noted that there are a small number of providers who require that their agents are also registered and follow required processes. ARS user comments included:

[About] 99.9% of the community know about alternative remittance providers. What is needed is to build the knowledge base of service users.

Providers are frustrated because it is impossible to access information from sub-agents who don't collect information from a customer.

Education about AUSTRAC is crucial for the community. Is there a logo that can be promoted to our people so they can easily identify when they are using a safe process? (Filipino ARS users personal communications 2008).

Community leaders also expressed concern around the fact that many businesses operating in Australia and the Philippines also use ARS as a cheaper option for transferring monies and that there was no process in place to differentiate between private and business-based transfers. One participant commented:

Because businesses are using the process, the amounts transferred will be much higher. This is not money being sent by the community for the community in the Philippines (Filipino ARS user personal communication 2008).

Feedback aimed at identifying reasons for low levels of registration with AUSTRAC indicated that compliance requirements were prohibitive for many of the providers who only operated small businesses and some users were aware of this.

Many of the providers in our community cannot afford to buy the software that is required in registration. Is there an opportunity for AUSTRAC to subsidise or provide this? (Filipino ARS user personal communication 2008).

These concerns were also echoed by providers who explained that the amount of paperwork involved was not something that they could realistically produce as a small business. There were also difficulties in attempting to implement databases that were not compliant with those used overseas.

Community leaders explained that there were also a small number of Filipino banks operating in Australia that offered the option of a dual bank account that could be accessed both here and overseas. While this was not commonly known among community members, it was unlikely that community members would make use of the option due to costs involved. One participant commented that '[a]ny bank account in the Philippines attracts a documentary tax so people are reluctant to use these' (Filipino ARS user personal communication 2008).

The majority of community members involved in consultations commented that they had never experienced difficulties or lost money by using ARS

providers. Consultations with community leaders, however, did highlight situations where losses had occurred. One example involved the use of internet-based services where an individual had accessed another person's bank account and transferred a large amount of money overseas. As no identification processes were in place, it was not possible to trace who had accessed the account and transferred money.

In another example, a provider told of a client who had, on a previous occasion, accepted an offer from the daughter of a friend to take her money to an ARS provider to send overseas. The daughter explained that she was an agent for the company. The money never arrived at its intended destination and when the woman contacted her friend to find out what had happened she was told that the daughter had moved interstate and had left no contact details. When she contacted the provider, they had not heard of her.

One participant commented:

The biggest problem we encounter is people using agents. They are the middle man and are unlikely to be registered. If the client contacts the agency to find out where their money is there is no way to trace it. It is sometimes impossible to find the agent (Filipino ARS provider personal communication 2008).

Community members suggested that information about unreliable providers be effectively circulated by word of mouth and through community newspapers so the community is largely able to avoid using them.

There is an organisation that we are tending to avoid because we don't think the money is going directly where we want it. This firm has been operating for a long time but we are finding the process is not what it should be (Filipino ARS user personal communication 2008).

However, they also expressed an unwillingness to seek information around the credibility of agents or ARS providers they used.

Sometimes we know the person but we don't feel we can ask if they are registered because it might offend them. It is a matter of trust. We are not culturally open to asking questions. We just want to know that the money will get through (Filipino ARS user personal communication 2008).

Analysis of these comments suggests a need to correctly identify a legitimate ARS provider or their agent. The comments do not relate to the alternative remittance system itself. The comments suggest that for cultural reasons, it is not always easy to challenge a person purporting to be a remittance provider.

Somali community

Discussions with Somali community leaders highlighted that a key concern about the current regime related to being held accountable for the misuse of money sent overseas for legitimate purposes.

We have had many women in our community contacting us worried about being impacted by situations where they have unwittingly sent money to family members who are involved in terrorist activities (Somali community leader personal communication 2008).

This issue was also a concern for community members involved in raising funds to support charitable organisations overseas that may be involved in illegal activity.

While many of the older, more established ethnic communities in Australia have access to local branches of their home country banks and can use these to easily transfer money, new emerging communities are largely limited to the use of ARS until trustworthy branches are established in Australia. (Stakeholder roundtable Somali and Filipino communities 6 June 2007). In contrast to the Filipino community, the Somali community were generally more aware of the requirement for remittance providers to be registered and were also more likely to ensure they used registered providers. They were also more likely to report any misuse of monies by ARS providers. Somali ARS users commented:

We know who the registered providers are—we use these ones. I would report anyone doing the wrong thing if I had evidence.

I did not hear any misuse but I would warn him then if he fails, I would report him to the relevant authority (Somali ARS users personal communication 2008).

Many of the responses provided by the Somali community suggested that they had become much more diligent in ensuring they used legitimate

processes and systems following the impact international events have had on the community in recent years.

Provider perspective

Indian/Samoan/Vietnamese ARS providers

Most Indian, Samoan and Vietnamese providers felt that community members did not monitor providers in any way and that most would not be aware of the regulations in place for providers. However, a few felt that there was an informal approach to monitoring through word of mouth. Also, it was felt that consumers conduct business with people they trust, which alleviates any concerns, rather than being aware of and receiving confidence through government regulations.

Among providers, awareness of the regulations was very high and all except one provider was registered with the government. The one provider who was not registered said that this was because money transfers were a small part of the business and they were registered as a grocery business.

There were discussions about the regulations that related to reporting suspicious transactions to the government and asking customers to provide identification. With regard to identification, most providers felt comfortable with the regulation and many said that they were already doing this. There were some who mentioned that they only do this when people are transferring large amounts and one who said that they would start asking for identification from then on. Another said that while they ask for identification, they do not always pursue it, as they are concerned that if it is too difficult for customers the business would lose them.

Several concerns were raised by providers regarding suspicious transaction reporting. While the consensus generally was that this is an appropriate regulation, quite a few were concerned about the potential repercussions for their business and their safety. Comments included:

I'd be concerned about the consequences for the family grocery store if real criminal elements were involved.

I'd be too scared of reporting suspicious customers to the government (ARS providers personal communications 2008).

An important finding of the fieldwork was that many Samoan, Indian and Vietnamese ARS providers did not feel that there were any advantages to being registered with the government. Where advantages were identified, these tended to focus on the benefits of abiding by Australian laws and ‘doing the right thing’, the legitimacy of the business as a result of registration and the protection registration provides the business. It was clear that, for a few providers, there were minimal perceived benefits, but that registration was seen as compulsory in order for the business to operate.

Most of the providers found it easier to articulate disadvantages of the regulations and these primarily focused on the paperwork associated with the regulations. There were several criticisms of the amount of paperwork involved, the frequency and complexity of the reporting, and the time implications for the business. Nevertheless, some providers did not feel that registration had any disadvantages and that it was expected in the current climate. One ARS provider commented:

No disadvantages. The way the world is going it is better to be registered and watched. If you have nothing to hide you have nothing to worry about (ARS provider personal communication 2008).

Providers made several requests for simple reporting that would not be required too often. Several providers said that they reported every fortnight, with some requesting a quarterly reporting framework. Internet/online reporting was preferred by about half of the providers, while others requested the ability to report via telephone, or for computer training to be provided by the government.

The researchers explored opportunities for encouraging business registrations, although it is worth noting that few providers identified potential strategies. Some discussed the need to advertise the advantages that registration offered business providers, although the research results suggested that this may be challenging, given that most registered providers were unable to identify advantages. Motivation tended to be the belief that registration is compulsory and therefore important in ensuring the business is abiding by Australian laws.

The implication of this finding was that this could be a key message when promoting the benefits of registration to providers. The results also indicate

that there are opportunities for promoting a wider range of benefits to already registered businesses to reinforce this behaviour (of staying registered).

Filipino ARS providers

The majority of registered ARS providers within the Filipino community spoke positively about the need for improved scrutiny and accountability of providers. A number of providers believed that the registration process required by AUSTRAC had helped improve their operating systems. These were large-scale service providers whose sole business activity revolved around ARS. A common feature of these providers was that they all used the M Lhuillier pawn shops as their remittance distribution outlet in the Philippines. M Lhuillier have over 500 outlets throughout the Philippines, making them easy to access and therefore minimising the need for door-to-door services. One provider commented:

We are a large provider. We transfer between \$30,000 and \$50,000 every day, so we need to be very confident about who is accessing this at the other end (Filipino ARS provider personal communication 2008).

Providers also commented on the growing need to put a series of checks in place to ensure compliance with registration requirements and to reduce risks of illegal activity. These checks included:

- requiring existing clients to provide an identification number when calling to arrange a transfer (all clients are issued with an ID number once identification is verified);
- requiring new clients to provide a range of identification documents. AUSTRAC usually follows up by sending out a brochure to the address provided. AUSTRAC is also able to work out if a false address has been provided if the brochure is returned; and
- requiring that agents in the Philippines distribute monies directly to the nominated individual.

Somali ARS providers

Some of the challenges ARS providers to the Somalis community face include negative media reports and the intense international scrutiny concerning the illegality of ARS. Providers highlighted that it is important to understand that

allegations of terrorist financing and suspicious activity on the part of Somali remittance companies are having significant impact on the morale of remittance providers. It should be noted that some of these concerns have been expressed from within the Somali community itself.

The greatest concern impacting ARS providers at the time of interview related to fraudulent credit card usage. The increased usage of internet-based services is expanding opportunities for illegal activity and providers are seeking ways to prevent this occurring.

One Somali ARS provider stated:

We now ask individuals to provide a current bill so we can double check their identification. If they are fraudulent you know straight away because you can't contact them (Somali ARS provider personal communication 2008).

One provider who offered direct debit services further highlighted risks faced by providers due to the growing demand for internet-based services.

We offer a gateway service which allows customers to directly debit their bank account to send money overseas. One new customer tried to sue this service but we put the transaction on hold until we had verified identification. Westpac contacted us a couple of days later to tell us the money had been stolen as the account had been accessed illegally (Somali ARS provider personal communication 2008).

There is also a view that the continued implication of the Somali remittance sector in illegal activities is likely to ultimately force the sector underground. Respondents reported that it is in the best interests of the remittance companies and the Australian Government entities to work together to provide both a design and framework for a more transparent and accountable financial sector.

Several ARS providers to the Somali diaspora spoke of their respective companies having specific policies related to anti-money laundering, for example, Kaah Express included this in a code of conduct for all their agents. Dahabshiil have a staff manual to make sure that Dahabshiil agents and staff comply with local rules and regulations and apply best practice anti-money laundering international guidelines by ensuring that staff:

- fully understand the mechanics and methods of money laundering;
- are aware of the company's anti-money laundering policy and procedures;
- are aware of their legal obligations in their dealings with customers;
- are alert to suspicious transactions;
- report suspicious transactions according to set procedures; and
- retain appropriate records for the required period.

Legislation and regulations in overseas jurisdictions

A comparative survey of a number of jurisdictions demonstrated that there have been many different national responses to international initiatives regarding value transfer systems and that a number of political, social and economic issues are relevant in the formulation of these responses. The jurisdictions discussed below include the United States, the United Kingdom, Germany, Canada, Hong Kong, Singapore, Vietnam, Samoa, the Philippines, Somalia and India. Some of the crucial features of the regulatory arrangements in these countries relating to ARS are summarised in Table 7 below.

United States

In regulatory terms, the United States responded quickly, and at times in a controversial manner, to the 11 September attacks.

The United States now has a complicated system with regard to MSBs which involves both federal and state regulation, and which has evolved substantially since 2001. The financial intelligence unit of the United States is FinCEN. In 2006, during the course of a mutual evaluation, FATF assessed the United States as being largely compliant with regard to SR VI (FATF 2006a). All MSBs, which includes those who organise cash transfers, who are operating within the United States and are subject to the *Bank Secrecy Act 1970* (as amended by the *USA Patriot Act 2001*), must register with FinCEN. The MSB industry is very diverse and includes money

Table 7 Overseas jurisdictions regulatory arrangements for ARS

	Registration	Licensing	'Fit and proper person' test	Compulsory AML/CTF program
United States	Yes (federal requirement)	Yes (substantial state requirements in large majority of states)	Not at federal level	Yes
Canada	Yes	No	No	No
United Kingdom	Yes	No	Yes	No
Germany	n/a	Yes	n/a	n/a
Singapore	n/a	Yes (annually)	No	No
Hong Kong, China	Yes	No	No	No
Taiwan	n/a	Yes	n/a	n/a
India	No	Yes	No	No
Samoa	No	Yes	No	No
Vietnam	No	Yes	No	No
Philippines	Yes	No	No	No
Somalia	Yes	No	No	No

n/a: not applicable

Source: APG 2006, 2005a; De Luna-Martinez, Endo & Barbaris 2006; FATF 2008a, 2008b, 2008c; 2007, 2006a

transmitters, currency dealers, cheque cashers, issuers of travellers' cheques, providers of money orders or stored value cards and sellers/redeemers of traveller's cheques. The US Postal Service is classed as an MSB.

The *USA Patriot Act 2001* defined the term *MSB* to include:

a licensed sender of money or any other person who engages as a business in the transmission of funds, including any person who engages as a business in an informal transfer system or any network of people who engage as a business in facilitating the transfer of money domestically or internationally outside of the conventional financial system (United States Patriot Act Title III Subtitle B s 359).

Failure to register is an offence and the registration requirement is policed by the IRS. Legislative requirements include the obligation to keep all records for five years and that the business must maintain an AML/CTF program.

As of 5 April 2006, 24,884 MSBs had registered with FinCEN (FATF 2006a). The total number of MSB's operating within the United States may be as high as 200,000, but some 40,000 of these are US Postal

Service offices and many others may be agents of larger MSBs. There are eight major MSBs within the United States and the sector is highly concentrated. FinCEN has suggested that less than 20 percent of MSBs are registered (United States Department of the Treasury 2007).

In 2006, as part of its mutual evaluation, FATF recommended that the IRS devote more resources to monitoring the MSB sector (FATF 2006a). The MSB Working Group, which comprises representatives from IRS, FinCEN, ICE, Treasury, Drug Enforcement Agency (DEA) and FBI, is currently targeting MSBs with possible criminal/terrorist connections and also trying to identify MSBs that have not registered (FATF 2006a).

It is also now a federal requirement that MSBs comply with all relevant state requirements and failure to do so is an offence. Forty-six US states have introduced licensing requirements (FATF 2006a), however, US states differ in their legislative requirements and so different MSBs face different compliance burdens. The burden can be particularly heavy if an MSB operates in more than one state (as a number do) and must meet all the requirements for each of these states. The system can be particularly expensive for small operators and there are

suggestions that the MSB has, to a considerable extent, been criminalised because many small MSBs are going underground (Passas 2006). The United States has prosecuted a number of MSBs for not fulfilling licensing requirements, as shown in Table 8.

Table 8 US prosecutions of unlicensed MSB operators 2004 (n)

	Fiscal year 2004
Cases	45
Defendants	68
Successful charges	40
Terminated defendant count	40
Guilty	27

Source: FATF 2006a

MSB operators have suggested that one solution to the issue of how MSBs satisfy the regulatory requirements for a large number of states is that the US Government considers a ‘federal license’ which would allow MSBs to function in all states (Haider 2007).

Companies such as Western Union have also suggested that expecting small remitters or agents to introduce and manage a complicated AML/CTF program is unrealistic and that for smaller bodies, there should be a return to the ‘tick and flick’ rather than risk-based approach. They emphasise that a risk-based program is not consistent with zero tolerance, since a risk-based approach by definition increases the risk of people making mistakes (Rodriguez 2007). The takeover rate within the MSB industry is very high and there have been cases where an MSB that has been taken over has unwisely relied upon its new partner to satisfy AML/CFT requirements; it is not been clear who has responsibility for ensuring these responsibilities are met (Prakash 2007).

Many US banks ceased dealing with MSBs in the aftermath of the events of 11 September 2001 due to concerns about possible links with terrorism (in particular, they withdrew account facilities from MSBs), although it is possible that, to some extent, this trend is being reversed (Prakash 2007). There is conflicting evidence on the issue, with one report suggesting that in 2009, US banks still viewed some MSBs as risky and were refusing them access to

bank accounts (Money Transfer International 2009). Prakash (2007), speaking from a risk consulting perspective, suggested that this was leading to consolidation in the money transmission industry, which implied that banks were more likely to deny access to smaller businesses. Such a development may be unfortunate in that it could provide an incentive for some businesses to go underground.

In the course of its mutual evaluation, FATF noted the FBI finding that MSBs are the third most popular money laundering mechanism they encounter, after formal banking systems and cash businesses (ie businesses specialising in the physical movement of cash). Much of the funds laundered through MSBs are sent to the southwest border of the United States (FATF 2006a).

Major commercial ARS providers have commented that the settlement between Riggs Bank N.A. and FinCEN has had a considerable impact on the remittance industry (FinCEN 2004b; Haider 2007). The Riggs case involved a civil settlement between the bank and FinCEN as a result of a failure by Riggs to implement an effective anti-money laundering program and negligence by the bank with regard to a number of other issues, including reporting requirements and identification of high-risk customers. FinCEN noted that bank personnel who were involved in dealing with MSBs ‘were unaware of the factors that typically are associated with suspicious activity and the new BSA requirements for the registration of MSBs’ (FinCEN 2004c: 4). Riggs paid US\$25m in a civil settlement. There has been concern that the outcome of the Riggs matter has had a negative impact on the number of banks who were prepared to deal with MSBs, although as at 2007, it was possible that this situation was improving (Prakash 2007).

Some aspects of the regulatory position in the United States may have eased over the last two years. The Federal Financial Institutions Examination Council (FFIEC) is a formal inter-agency body that prescribes uniform principles, standards and report forms for the federal examination of financial institutions. The FFIEC manual released in 2007 acknowledged that MSBs can pose a variety of levels of risk depending upon circumstances; the previous edition classified them all as ‘high risk’ (Rodriguez 2007).

Large commercial MSBs have also expressed concern that the United States' definition of MSB is too broad and that many smaller agents who work for the large commercial MSBs are being placed under unrealistic requirements, particularly when, for the agent, remittance work represents only a small part of their business activities (Haider 2007).

In summary, the US system includes both a system of registration (imposed by a federal regulator) and a further system of licensing for many MSBs and possibly a 'fit and proper person' test for proprietors and owners imposed by a state regulator, but ultimately supported by the federal regulator. The involvement of both federal and state regulators means that not all MSBs in the United States face the same regulatory burden; the level of burden will be determined by the location in which an MSB conducts its business (and if it conducts its business in a number of states, the burden may increase).

Canada

The FATF Mutual Evaluation of Canada held in 2008 concluded that Canada's regime regarding money service businesses was not in compliance with SR VI (FATF: 2008a). FATF noted that there was no registration scheme and that MSBs were not required to maintain a list of their agents (FATF 2008a). Subsequent amendments to the *Proceeds of Crime (Money Laundering) Terrorist Financing Act 2000* (the PCMLTFA Act) introduced a registration scheme for Canadian MSBs which came into effect on 23 June 2008. This registration scheme does not apply to a person operating an MSB solely as an agent or as a mandatary (ie under the direction of) for another MSB, or if the person carries out MSB activities as part of other activities which are already subject to the PCMLTFA Act and its regulations.

Canadian MSBs are under the jurisdiction of Canada's FIU, the Financial Transactions Reports and Analysis Centre (FINTRAC). Under the PCMLTFA Act, the term *MSB* is defined broadly to include an entity or individual engaged in foreign exchange dealing, remitting or transmitting funds by any means or through an individual, entity or funds transfer network, or issuing or redeeming money orders, traveller's cheques or similar negotiable interests. Cashing cheques made out to a particular individual or entity is not included in this definition.

FINTRAC has estimated that, as at 2009, there are about 700 MSBs in Canada. They are concentrated, as in most jurisdictions, in two major groups—in large companies such as Western Union, or as very small operations. The fact that many MSBs also operate as other businesses and that there is a high turnover in the industry has made it difficult to estimate numbers, although presumably compulsory registration will assist in doing this (FATF 2008a).

United Kingdom

In the United Kingdom, all MSBs are currently subject to the Money Laundering Regulations 2007 (MLR 2007), the *Proceeds of Crime Act 2002* and the *Terrorism Act 2000*. They are regulated by HMRC and in some cases the Financial Services Authority (FSA). Within the United Kingdom, money transfer firms (which are broadly defined in the Money Laundering Regulations to include third-party cheque cashers, change bureaus and money transmitters) are regulated by the FSA if they provide a service that is already regulated by the FSA. In all other circumstances, they are required to register with HMRC, who have responsibility for regulating them.

In the course of its 2007 mutual evaluation of the United Kingdom, FATF advised that United Kingdom is largely compliant with the provision of SR VI but that it needed to consider targeting more resources against smaller MSBs that may be more at risk of money laundering and terrorism financing (FATF 2007). FATF estimated that in 2007, that there were 1,515 money transmitter businesses registered in the United Kingdom (FATF 2007). It noted that the money value transfer sector was the most ethnically diverse in the United Kingdom and there were concerns that not enough resources were being devoted to monitoring it (FATF 2007).

Following the FATF mutual evaluation, the United Kingdom introduced the MLR 2007, which brought into effect the European Union Third Money Laundering Directive. Under the MLR 2007, the United Kingdom also introduced a 'fit and proper person' test for people involved with an MSB. This test applies to a registration applicant, a person who effectively directs the business, a beneficial owner of the business and any nominated officer. A person will fail the test if they have been convicted of an offence under:

- the *Terrorism Act 2000*;
- a number of provisions under the *Anti Terrorism, Crime and Security Act 2001*;
- the *Terrorism Act 2006*;
- a number of provisions of the *Proceeds of Crime Act 2002*;
- the *Fraud Act 2006*;
- a number of sections of the *Value Added Tax Act of 1994*; or
- have been involved in cheating the public revenue, or are otherwise not a fit and proper person with regard to the risk of money laundering or terrorist financing.

So the test is a broad one, particularly with regard to the last qualification. The relevant fee only has to be paid once; a successful applicant does not have to annually re-take the test.

The United Kingdom also introduced the European Union Payment Regulation, which came into effect on 1 January 2007. The Payment Regulation applies to a natural or legal person within the United Kingdom who is classed under the Payment Regulation as a Payment Service Provider (PSP). A PSP is defined as a *natural or legal person who business includes the provision of transfer of funds services* (article 2(5) Regulation (EC) No 1781/2006 of the European Parliament and of the Council of 15 November 2006).

This includes MSBs. The Payments Regulation was introduced into the United Kingdom by the Transfer of Funds Regulations, which are administered by HMRC. The Payment Regulation puts PSPs under obligations that can be additional to those imposed by the MLR 2007. Under the Payments Regulation, when PSPs send or receive a transaction, they must ensure that they obtain Complete Information on the Payer (CIP). CIP includes the payer's name, one of a number of possible forms of identification and an account number or unique identifier which enables the transaction to be traced back to the payer. Under the Payments Regulation, CIP records have to be kept for five years. For all transactions over 1,000 Euros that are not made from an account, CIP must be verified on the basis of information provided by an independent source. Customs has advised PSPs that they should obtain CIP for transactions that are under 1,000 Euro's but seem to be linked, as well as for one-off or first time transactions.

The Payments Regulation also has implications for Intermediary Payment Service Providers (ISPI). A natural or legal person is classed as an ISPI if they are involved in the transfer of funds but are not acting as a PSP for payer or payee. An ISPI needs to ensure that all the information that accompanies a transfer stays with that transfer. The Payments Regulation links in with the provisions contained in the MLR 2007 regarding the 'fit and proper person' test. HMRC monitors the circumstances of people who have passed the 'fit and proper person' test and can decide they no longer satisfy the criteria to retain this status. One of the criteria for being considered to be 'fit and proper' is that the person has not consistently failed to meet the requirements of the Payments Regulation.

Concerns have been expressed by the UK Money Transmitters Association (UKMTA) that information gathered as a result of the operation of the Regulation may end up in the hands of foreign law enforcement and intelligence bodies who may use it for corrupt purposes (Vlcek 2006). The UKMTA has also suggested that this level of regulation may drive remitters underground. The UK Department for International Development has suggested that any regulation needs to be risk-based rather than blanket (Vlcek 2006). Currently the UK's regulatory regime regarding ARS is relatively rigorous and also quite complicated.

Germany

As at 2005, Germany only allowed money transfer services to be provided by licensed financial institutions. In 2005, there were 39 licensed money transfer companies in Germany and licensed banks were also providing money transfer services (De Luna-Matinez, Endo & Barbaris 2006).

The World Bank noted in its study of the Germany-Serbia remittance corridor that despite the government prohibition on informal remittance, up to 50 percent of the remittance flow between Germany and Serbia used informal methods. Many of these methods seem to centre on cash couriering. The World Bank suggested that there could be a number of reasons for this, including the close proximity of the two countries, the low number of Serbians with bank accounts, the widespread use of cash by Serbians (who are often paid in cash), the limited

number of ATMs in Serbia and the fact that of the 39 licensed money transfer companies, only one (Western Union) provided a remittance service to Serbia in 2005 (De Luna-Matinez, Endo & Barbaris 2006).

The World Bank's research into this remittance corridor suggests that prohibition is not an effective strategy and that depending upon the circumstances, people wishing to send remittances cheaply and quickly (and in ways that are culturally relevant) will find an informal channel to do so.

Singapore

In Singapore, money changing and remittance businesses are regulated under the Monetary Authority of Singapore (Anti Terrorism Measures) Regulations 2002, which are administered by the Monetary Authority of Singapore (MAS). Under these regulations, businesses need to be licensed and the license needs to be annually renewed. MAS issues AML/CTF notices which licensees are obliged to comply with and they maintain a database of principals, directors and shareholders (and their shareholdings). Although MAS has the power to enter premises to see if an unlicensed money changing or remittance business is being operated, this task is usually undertaken by the police. Between 2004 and 31 July 2007, the police had secured 18 convictions against people operating an unlicensed remittance/money changing business. The police also conduct public education programs to educate people regarding their obligations if they join a remittance/money changing business. MAS has fined a number of licensees for not complying with AML/CTF requirements and as at November 2007, two licences had been revoked (FATF 2008b).

Over the last few years, the conditions for granting or renewing a licence have been made more stringent and a number of smaller companies have not renewed their licences. It is not clear how big the unlicensed money changing/remittance sector may be in Singapore, as it has not been the subject of research. In 2008, FATF rated Singapore as largely compliant with SR VI, although it commented that Singapore needed to investigate the ramifications of a possible informal sector and that there needed to be increased legal clarification of requirements relating to CDD and wire transfer information (FATF 2008b).

Hong Kong, China

The Hong Kong remittance sector is very large. Since 2002, all remittance agents and money changers have been obliged under the Organised and Serious Crime Ordinance (OSCO) to register with the Joint Financial Intelligence Unit (JFIU), which is Hong Kong's FIU. All sub-agents must register in their own right. Registration involves the provision of names and all addresses from which a business is being conducted. It is a criminal offence punishable by a fine to operate without a licence and it is a criminal offence punishable by imprisonment to not properly maintain records. The JFIU has provided training and issued explanatory guidelines to ARS providers (FATF 2006c).

Under s 24C of OSCO, remitters must obtain contact details for people undertaking a transaction worth over HK\$8,000 and, where the transaction is being conducted face-to-face, must verify these details. Remitters are subject to broad suspicious transaction reporting requirements. The Hong Kong Police do pursue unregistered remitters, basing such investigations on suspicious transaction reports from banks. As of December 2007, police had undertaken 88 successful prosecutions for operating unregistered remitters and have undertaken another 127 prosecutions for failing to keep proper records. A number of banks have severed connections with remittance dealers on the grounds they represent a high risk, which has caused resentment. FATF has ranked 'Hong Kong, China' as being partially compliant with SR VI on the grounds that penalties relating to registration and compliance with record-keeping requirements are disproportionate and that there is too much emphasis on law enforcement action and insufficient emphasis on consistent administrative supervision of the remittance sector (FATF 2006c).

Taiwan

In Taiwan, under Article 3 of the Banking Act (Provision of Domestic and Foreign Remittance Services), only banks are allowed to provide remittance services. Article 29 states that:

Unless otherwise provided by law, any organization other than a Bank shall not Accept Deposits, manage Trust Funds or public property under mandate or handle domestic or foreign remittances.

Under Article 125, a violation of Article 29 attracts substantial penalties, including both imprisonment and criminal fines.

Banks are allowed to establish business partnerships with foreign remittance providers such as Western Union. The foreign remittance agencies, upon obtaining a relevant licence from the Ministry of Economic Affairs, are allowed to provide (electronic) remittance services through their partner banks; KYC and CDD functions are undertaken by the partnering banks. It is generally acknowledged that underground remittance providers exist (typically using jewellery retail businesses and pawn shops as fronts) and they are utilised by individuals with no legal status in the country.

India

MSBs and exchange houses are licensed by the Reserve Bank of India (RBI) under the Foreign Exchange Management Act (FEMA Act). Once they are licensed, these businesses are considered authorised persons under the FEMA Act. As such, they can receive payments from overseas and hold foreign currency. They are subject to reporting requirements, including suspicious transaction reporting requirements, although RBI has provided little guidance regarding what constitutes such a transaction. These businesses are subject to both annual and random inspections (APG 2005a).

Under the FEMA Act, operating as a money exchanger or as an MSB while unlicensed is a civil offence and can be penalised with a fine. Such unlicensed operations are referred to as *hawala/hundi*. Under previous legislation, unlicensed operating was treated as a criminal offence and could be punished by imprisonment. Nevertheless, there is a large informal sector in India, although its size is unclear. FEMA Act regulations regarding ARS operators (usually referred to as *hawala* operators) only apply to those who carry out overseas transactions.

In 2005, APG stated that the illegality of *hawala/hundi* has made it difficult to estimate the size of the informal sector. It also suggested that the fact that operating an unlicensed *hawala* business is now only a civil matter may have encouraged the growth of the informal sector.

In the course of a mutual evaluation conducted in 2005, APG recommended that:

- the running of an illegal money remittance business be re-criminalised;
- the RBI (and other relevant agencies such as tax and law enforcement) cooperate in order to determine how large the informal sector is and what activities it is involved in;
- there should be an increase in the level of monitoring of MSBs and exchange houses in order to ensure they comply with FATF's Recommendations and Special Recommendations;
- there should be more incentives to encourage unlicensed remitters to become licensed and thus join the formal sector;
- regulatory authorities should conduct education programs within the informal sector regarding regulatory requirements; and
- domestic *hawala* systems should be under the same regulatory system as those who accept money from overseas.

In view of these deficiencies in 2005, FATF rated India as only 'partially compliant' with SR VI (APG 2005a).

Samoa

In 2006, FATF estimated that remittances amounted to about 24 percent of Samoa's 2006 GDP (APG 2006). It also noted that the majority of the population was rural and did not use formal banking services. Money transfer businesses are licensed and regulated by the Central Bank of Samoa under the Exchange Control Regulations 1999. Money transfer businesses are also affected by the operations of the *Money Laundering Prevention Act 2007*, which sets out the CDD requirements that affect the operations of money transfer businesses. The Central Bank of Samoa contains the country's FIU, which monitors money transfer businesses for AML/CTF compliance. The Samoan Government has been issuing more licences to remittance dealers in order to bring more of the remittance business into the formal sector. Western Union is the biggest remittance operator in Samoa. The FIU has conducted limited onsite inspections and training of money transfer businesses and such activities have concentrated on larger companies. However, there are still informal

services provided by grocery stores, hairdressers and taxi services. There has been no assessment regarding the possible size of the informal sector and there is little information regarding possible misuse by criminal or terrorist elements.

In 2006, FATF rated Samoa as 'partially compliant' with SR VI (APG 2006). It suggested that:

- there be more onsite inspections to ensure compliance, CDD and reporting requirements are met;
- there be a detailed assessment of the size and activities of the informal sector;
- there be increased AML/CTF training for the whole of the remittance sector; and
- the government consider supporting the formation of a remittance agent's association which could assist with increasing compliance within the sector (APG 2006).

Vietnam

The State Bank of Vietnam (SBV) is the financial sector's primary regulator, although the Ministry of Finance also has some influence on the remittance sector. The formal remittance sector has traditionally been dominated by banks and money transfer operators. However, in 2002, SBV began to encourage other companies to provide remittance services. All remitters need to be licensed by SBV. The relevant licensing standards include:

- a valid contract with an international counterpart regarding remittance arrangements;
- a feasible business proposal; and
- a network that can disburse funds rapidly.

Generally, licensed remitters cannot subcontract this activity, but from 2002, commercial banks have been able to delegate disbursement functions to other banks and agents. Non-bank entities who are licensed remitters can use the banking system to disburse funds or can delegate this function to credit institutions. Any credit institution that can operate foreign exchange services can perform remittance services without asking SBV's permission.

It has been suggested that the changes of government policy towards remitters has led to a climate of uncertainty in the sector and that this uncertainty has encouraged the use of informal channels.

Philippines

The Philippines has adopted a registration system for remittance service providers. As of July 2005, all foreign exchange dealers, money changers and remittance agents are required to be registered with the Bangko Sentral ng Pilipinas (BSP), which considers such registration to be part of KYC compliance procedures. The APG has recently undertaken a mutual evaluation of the Philippines.

Somalia

ARS is perceived as being crucial to Somalia and has been well-established for some time. In 2004, the SFSA was formed to self regulate the remittance sector (Houssein 2005). Remittance dealers are registered by the Bank of Somaliland but there is no effective regulation of their activities within Somalia, where they are well-organised and capable of reaching most parts of Somalia within 24 hours (Waldo 2006). The SFSA has suggested no regulation is possible until the country is under proper government.

Comparison of regulatory regimes

As demonstrated above, the guidance contained in the FATF Recommendations has attracted considerable academic attention. Research shows that jurisdictions are following the basic model developed by FATF to varying degrees and other models are being explored. The relative newness of these regimes makes it difficult to measure their effectiveness.

The Australian regulatory system has the advantage of being simpler than either the US or UK model. Australian ARS providers do not have to satisfy *both* Commonwealth and state requirements, so the regulatory requirements are the same irrespective of where in Australia the provider operates. Nor does the Australian regulatory system have to accommodate complex requirements such as those of the European community.

Australia should perhaps consider the possibility of introducing either a licensing and/or a 'fit and proper

person' test. However, the introduction of a licensing regime would potentially increase the burden of the regulator and, to be effective, would require a substantial ongoing monitoring program (unless the licence involved a one-off fee, which does not seem to be an effective approach). The introduction of a 'fit and proper person' test may be more effective in keeping undesirable operators out of the industry, but this would involve a substantial regulatory commitment. The UK approach means that both owners and operators are subject to the test and they can be barred from operating an MSB if they have been convicted of certain offences; however, the test only has to be done once. It is not clear how a change in a person's circumstances could be monitored. There is also the issue of how stores of data relating to registration, licensing or 'fit and proper persons' tests can be kept up to date.

Available evidence would suggest that many jurisdictions are also attempting to establish at least some level of contact with remittance providers. However, there are few indications of attempts to make contact with the communities that use remittance systems, although the AIC consultations strongly suggest that such approaches may be worthwhile. A vulnerability for Australia, which has been noted in the AUSTRAC supervision strategy 2009–10, is that many remittance businesses do not have AML/CTF programs, do not conduct proper risk assessments and do not have adequate customer identification procedures. It may be unrealistic to expect that small alternative remittance businesses would have the resources or the knowledge to adopt such initiatives, which not only requires substantial investment in areas such as staff training, but also may well increase costs. An approach which might be suitable for formal financial institutions or corporate remitters may not necessarily work well for a different kind of business.

The costs of regulation

The consultations did not provide details regarding how much it cost a provider of alternative remittance to comply with regulations. In view of the relatively recent commencement of the legislation, it is possible that many ARS providers have not yet finalised their arrangements or are uncertain how to proceed. The

costs of compliance may also be a matter of commercial sensitivity in some cases.

One commentator reviewed a number of attempts to estimate compliance costs for private industry and the public cost of regulatory regimes and noted that the cost of compliance may exceed any financial benefit gained (Sproat 2007). This commentator referred to UK Treasury concerns that the costs of the MLRs introduced into the United Kingdom in 2001 were disproportionately borne by the smaller alternative remittance dealers because, as a result of the MLRs, they would have to introduce new record keeping and training. It was also estimated that the overall additional annual cost of the MLRs to the financial industry would be between £5,175,000 and £6,875,000.

If Sproat (2007) is correct, although the costs of regulation are extremely hard to estimate, they are likely to impact more heavily on smaller organisations, particularly those that do not necessarily generate high profits.

The impact of changing technology on alternative remittance services

FATF noted in 2006 that new payment methods (NPM) were both extending old methods of payment and introducing new ones (FATF 2006b). For example, until recently, movement of funds via the internet usually occurred between banks accounts. However, non-bank institutions such as PAYPAL now provide this service and traditional bank accounts need not be involved. It further noted that it is not always easy to identify NPMs and that some participants in the FATF 2004–05 Typologies Exercise commented that NPMs resembled ARS but that they deserve separate study (FATF 2006b).

FATF has identified that the most common NPMs are electronic and include pre-paid cards, SVCs, payment by mobile phone and internet payments (FATF 2006b). These payment methods tend to operate across a number of jurisdictions, which means that it is not always clear which regulatory body has responsibility for them. Furthermore, the nature of the technology means that the identity of the user is not always apparent (FATF 2006b). FATF has commented that there is a legitimate use for all these NPMs—for instance they can move money very quickly to areas affected by natural disaster—and that the 40 Recommendations and Nine Special

Recommendations provide a basic framework for addressing AML/CTF posed by this new technology. For some jurisdictions, such as Somalia, which have suffered great damage to their financial and government infrastructure, NPMs (particularly the internet) may be the most reliable way to move money. FATF recommended that the 2006 NPM findings be updated in due course and that more guidance be provided to jurisdictions where possible (FATF 2006b).

As an example of how jurisdictions are currently addressing the issue of NPMs, a person in the United States who acts solely as an issuer, seller or redeemer of stored value is not required to register as an MSB unless they take part in other activities that would lead them to be classed as an MSB. The US Treasury can investigate providers who are based outside the United States (FATF 2006b).

In Australia, those who provide NPMs will fall within the provisions of the AML/CTF Act and therefore be captured as reporting entities of the AML/CTF Act if they are providing a designated service under s 6 of the Act. In this case, they will have to abide by the reporting requirements set out under the Act and also put in place an AML/CTF program. The fieldwork conducted in all five communities has demonstrated that these NPMs are relevant to Australia and are increasingly being used.

Research regarding Filipino and Somali users demonstrated that some corporate providers have established a range of partnerships to improve service and this has helped them attract large client bases. Card-based innovations do not require people to open and maintain bank accounts and are therefore apparently more cost effective. An example is that Visa offers four products for money transfers and has links with banks, microfinance institutions and retail outlets. It is not clear whether alternative remittance providers use membership cards in the same way that corporate remitters are, but such innovations could have a considerable impact on the internal workings of the remittance industry.

The use of mobile phones is a major issue for the remittance industry. Mobile phones are cheaper to use than wire transfers and physically safer than delivering cash to a person's house (an important consideration in countries like the Philippines; Hancox 2008). Companies such as Western Union

and Dahabshiil are exploring the use of mobile phones. The basic arrangement is that a recipient receives a text message informing them a transfer has arrived in their electronic wallet; the recipient can withdraw cash from a licensed outlet, spend it or transfer it electronically (Barham 2008). The licensed outlet can take the form of an agent, who will presumably require identification which may be a code word or number.

The UK Department for International Development (DFID) has emphasised that any regulation of this area needs to take into account that clients are typically low income, may have limited access to remote documentation and that the retail agents the clients deal with may be unsophisticated and in remote areas (CGAP 2008). They further emphasised that in applying FATF guidance, many national regulators may fail to take advantage of the fact that FATF itself emphasised that a regulatory regime should be tailored to take into account a jurisdiction's particular interests (CGAP 2008). DFID quotes, with approval, the Filipino approach to this use of mobile phones.

In the Philippines, retail agents can perform CDD and KYC procedures as long as they meet a number of criteria. These criteria include that the agent is registered with the Central Bank of the Philippines, arranges for staff to undertake a day's training with the Philippines AML Council, ensures that any first-time customer produces identification (which involves producing government-issued identification), maintains records for five years and reports suspicious transactions (CGAP 2008). However, systems such as the Philippines are not foolproof. Training is generally only available in Manila, which in itself may pose logistical and financial problems for many agents (Barham 2008).

The introduction of mobile phones into the remittance industry took place several years ago and the use of such devices is still expanding. The use of new technologies is of ongoing interest.

Conclusion

ARS is probably becoming less frequently used as ethnic communities become more integrated into the economic structure of local jurisdictions. It has

been suggested that the Italian community used ARS when large scale Italian immigration to Australia began after World War II, but that use decreased as Italian banks (which have gained acceptance) opened branches in Australia. However, acceptance may not happen immediately and such a process can be profoundly influenced by the regulatory behaviour of host countries and countries of origin. An additional factor is the extent to which migrants keep their economic ties with their country of origin; as they integrate, transfers 'home' may decrease, but this depends on many factors, including the state of affairs in the country of origin.

There has been a steady rise in the amount of ARS regulation regarding AML/CTF issues throughout the world, but the regulation has not been uniform in character. Jurisdictions such as the United States and the United Kingdom have introduced onerous regulatory regimes involving measures such as licensing and 'fit and proper' tests, whereas jurisdictions such as Australia and Canada have introduced registration systems that only involve the provision of limited information by ARS providers. The emphasis has been on addressing concerns relating to issues such as terrorism, rather than taking into account the needs of the communities who use ARS.

Those who do use ARS (or corporate remitters such as Western Union), often have very little or no knowledge regarding whether there is any regulatory regime in place and what relevance it may have to protecting their interests. There is an assumption that some sort of regime must be in place and that it presumably provides some level of protection to users of the ARS system. The consultations provided some evidence of support for regulation (at least in principle) and there was no evidence among ARS users of hostility towards the idea of regulation as such. There was also a strong emphasis on the importance of complying with Australian law. It is clear that ethnic communities do not wish to be cheated and are prepared to cooperate with measures that lessen the chance of this happening.

The Filipino community expressed concern that no distinction was being drawn between the use of ARS for business and personal purposes. Not all ethnic communities use ARS for business purposes. The distinction between personal and business use

of ARS is not always easy to draw; for instance, funds may be used to help with a family business in the country of origin.

The Somali community, in particular, expressed concern that the new AML/CTF regime may criminalise many who are sending money overseas to relatives and/or organisations who may be involved in criminal or terrorist activity without the knowledge of community members in Australia. This concern would also be relevant regarding the implementation of FATF recommendations for charities.

There was concern around the activities of 'sub-agents' and a general perception that they were not registered (although they are, in fact, legally obliged to register in most cases). This is an issue for both major corporate remitters and for large ethnic remittance companies, many of whom use a large number of agents. It is possible there can be a number of layers of agents between the agent or sub-agent ARS provider who operates at street level and the remittance company management. The management is responsible for ensuring that sub-agents are registered, aware of their reporting responsibilities and have a suitable AML/CTF program in place. The last two requirements in particular could represent a substantial challenge, particularly as many of the requirements are new and unfamiliar.

The historical background and circumstances of a community are relevant to how the users of ARS perceive the ARS systems and attempts to regulate it. The Somali community demonstrated a relatively high level of knowledge of the current regulatory regime and a preference for the continuance of an open ARS system, which they saw as possibly the only method of sending money/value to their country of origin. The Somali community also expressed concern about the possible liability for people who send money overseas under anti-terrorism funding legislation. The Somali remittance companies who took part in the consultations emphasised the care they take to ensure they comply with all regulatory requirements. Other communities did not demonstrate the same level of concern regarding issues such as the implications of terrorism funding laws, no doubt because their countries of origin do not face the same internal difficulties.

Communities expressed interest in having more contact with AUSTRAC in its role as regulator and they suggested that such contact needed to be undertaken in ways that were sensitive to the needs of the particular community in question, especially regarding issues such as language. This may present an opportunity for AUSTRAC to engage with the communities and to provide guidance in regulatory requirements that apply to ARS.

For providers of ARS, there was a relatively high level of knowledge of regulatory requirements. There was at least some perception that community trust was a more important factor in a particular ARS provider attracting customers than whether they complied with regulatory requirements. Many ARS providers expressed dissatisfaction with the level of paperwork required by regulators, but Filipino providers commented that increasing use of technology means that they need to exercise more care in identifying customers anyway.

The impact of historical background was as relevant to the perception of providers of the remittance industry as it was to perception of users. It was also relevant to their perspective of regulation. ARS providers who service the Somali community emphasised the important role that ARS plays for many Somalis. They also expressed concern that recent comments regarding the possible involvement of the Somali community in terrorist-funding activities is affecting provider 'morale' and that if it continued, then the Somali ARS system might be driven underground. As mentioned earlier, it should be noted that some of these concerns have come from within the community itself.

Communities are supportive of prudential regulatory systems that protect their interests. It may be profitable in the long run to talk to communities (if necessary in their own language) in order to explain the rationale behind regulation and the benefits that accrue from it. The communities can then influence the providers. Such community consultations may allow for a regulatory impetus to flow upwards from the community rather than being imposed by government. In a sense, it may be a form of co-regulation; the communities who use alternative remittance could take more responsibility for ensuring all participants comply with relevant laws. The evidence suggests that such consultation may

also be the best method of encouraging recalcitrant ARS providers to fulfil regulatory requirements. It should be noted that communities are not likely to support initiatives that involve substantial increases in ARS provider costs (which are likely to be passed on to customers) unless they can be convinced that the new regulatory regime does, in fact, enhance the alternative remittance process. This issue may be of particular relevance to the Somali community, which is served by large, well-run alternative remitters who already appear to go to considerable effort to abide by all legal requirements.

The current Australian regulatory regime with its emphasis on AML/CTF issues may run the risk of penalising the innocent ARS providers and the communities who use them, without providing any substantive deterrent to abuse of the ARS system from a consumer protection perspective. A registration system can be bypassed by an individual organisation registering under a new name. The consultations suggested that there is support from a number of communities for effective regulation and regulators may find it beneficial to take advantage of this. The communities studied expressed support for regulatory activity but were also critical of regulatory attempts, to date, to make effective contact with communities who use ARS. Although the current regulatory arrangements in Australia relating to ARS have limited objectives (ie identifying who is an active member of the system), there is a real possibility that these objectives are not being met. The emphasis on registration may confuse or alienate the innocent and have very little impact on the guilty, who will have few scruples in registering under a new name or not registering at all.

A more rigorous regulatory system involving initiatives such as licensing and 'fit and proper person' tests will involve substantial expense (particularly if the intention is to regularly review licences and hold 'fit and proper person' tests at set intervals. Such a regulatory system may place the regulator at greater risk of liability. There is also the concern that the increased expense involved in putting in place such a system may be passed onto ARS providers and their customers. This risks further alienating ethnic communities who see ARS as a legitimate activity that addresses inadequacies and excessive expense in the formal financial structure, and driving ARS providers who cannot afford extra

regulatory costs either out of the industry or underground. This last issue may be particularly relevant for those ARS providers who do not provide a remittance service as a full-time occupation.

Users were concerned by the possibilities of being cheated or having their funds misused (which may expose users to legal liability). Community members commented that they were supportive of several different regulatory approaches. Their support for a potentially punitive approach is symbolised by their desire for a mechanism through which they could report ARS providers who were not acting in compliance with current requirements, although such a mechanism would probably have to allow for anonymous complaints. However, communities also expressed strong support for ARS and were sympathetic to ARS providers who were genuinely struggling to satisfy regulatory requirements,

particularly if the difficulty related to the cost of compliance. They saw a role for government in providing not only more information to both users and providers of ARS, but also more tangible support, such as information technology assistance.

In summary, any regulatory arrangement has to satisfy a number of interests if it hopes to be effective. The current emphasis on the introduction of AML/CTF programs, a more thorough approach to customer identification and monitoring, and the application of risk management may be too much for many ARS providers to accommodate. It also runs the risk of not satisfying consumer protection concerns. A more community-based approach with an emphasis on mechanisms for easy, anonymous reporting of wrongdoing may produce better long-term results in terms of risk minimisation.

Strategies to enhance compliance

The results of the community consultations suggested that increased involvement of communities would be highly beneficial both in terms of discouraging criminal and terrorist penetration of ARS networks and lessening the likelihood of the alienation of ARS providers and the communities that use their services.

The community perspective

Filipino/Somali communities

The Filipino and Somali communities provided a number of suggestions on how to improve the regulation of ARS. First, they emphasised that it is important that communities were easily able to access alternative remittance systems so they could support families overseas. Second, that regulations should not make things difficult or impossible for people who need to use ARS. They noted that there were many examples where community members had tried to support each other to establish a business by all lending money (through unofficial processes) and this had subsequently led to individuals being identified by police and interrogated about where the money came from. These communities expressed support for the improvement of the cultural knowledge levels of regulatory and law enforcement bodies that may

come into contact with the various financial practices used by particular communities.

The communities also emphasised that if there was an expectation on the part of government for communities to make more use of formal banking institutions, there needed to be more work done on improving bank systems. In their view, such improvement would require major reforms around issues such as costs and service provision.

The communities suggested that ARS providers needed to be more aware of not forwarding money to suspicious groups and should be held accountable for the quality of their services. Also, that there needs to be an inbuilt, user-friendly complaint-making process. It was emphasised that there would need to be provision for people to use such a process anonymously.

Vietnamese/Indian/Samoan communities

The Vietnamese, Indian and Samoan communities expressed concern regarding the operation of the ARS system. They suggested there was a lack of transparency in how ARS transactions took place from a user perspective. They believed that, at the time of interview, there was considerable guesswork from customers in terms of how an actual ARS

transaction occurred and this created an environment where customers were potentially more vulnerable to abuse and unaware of all the risks involved in conducting transactions. Therefore, the communities suggested that more general education of users is needed in this area. The communities also noted that there may be opportunities to develop the membership card system used by some ARS providers so that it could assist in regulating the ARS environment, while also giving users a sense of trust and security.

The comments suggested that the community had a considerable interest in both the protection and the regulation of the ARS system and there would be support for AUSTRAC becoming more familiar with the ARS process (if necessary with community assistance) and gaining a greater understanding of how it is used by specific communities.

The alternative remittance service provider perspective

Filipino/Somali providers

Filipino and Somali alternative remittance providers made the following suggestions concerning both the ARS system and possible future activities that AUSTRAC could consider. In their view, remittance companies generally complied with Australia's rules and regulations. However, some remitters acknowledged the need for more proactive plans to identify suspicious transactions and money laundering schemes as those practices invariably impacted upon the reputation of ARS providers as a whole. The Filipino and Somali communities advocated the development of a central data system that could assist all providers to identify elements of bad practice within the remittances.

They suggested that there was a need for better support by AUSTRAC in purchasing, training and use of software packages that may improve recording of transactions and also assist in the development of better risk management programs. They also emphasised that any information campaign should focus on the business-related and economic benefits of providers being registered, that such campaigns should involve law enforcement agencies

and recognise that alternative remittance, in and of itself, is not illegal.

It would be good if not only communit[ies] were targeted [with] information, but you also focused on government officials. They know so little about the practice and assume that it's informal, backwards and illegal. I don't know many businesses that have tried to operate in the context of war and survived economically, but that's exactly what we are required to do (ARS provider personal communication 2008).

ARS providers suggested that organising a roundtable involving representatives from the regulator would be helpful in generating preventative strategies but that such a roundtable would need to consider how such preventative strategies could be developed without inadvertently generating negativity concerning ARS.

One of the problems with your research is every time this happens, the communities panic and they think that there is a problem and the government is investigating illegal activity (ARS provider personal communication 2008).

Vietnamese/Samoan/Indian providers

Vietnamese, Samoan and Indian providers interviewed for this study provided a number of comments regarding the current regulatory system. There appeared to be a lack of consistency in how transactions were being conducted. For example, not all providers were asking for identification; some transactions were being conducted by telephone; and how (and which) agents were contacted differed somewhat by community. While this did not appear to be a major issue for the providers who were interviewed (ie it did not appear that there was illegal behaviour taking place among the individuals and organisations that participated in this research), it did create an ARS environment that was more difficult to regulate.

The providers found it very difficult to articulate the benefits that registration offered. As a result, they suggested that it would be beneficial to articulate more clearly any benefits from registration, with a particular emphasis that registration promotes a competitive advantage. They suggested that this message should also identify opportunities for the

providers to promote the registration to customers and enhance the level of trust within the marketplace.

The Samoan, Vietnamese and Indian providers suggested that the two key motivators for registration, at present, were the desire to abide by Australian laws and the belief that it was compulsory for the business to operate. In promoting the benefits of registration to providers who are currently not registered, they suggested that there should be an emphasis on the importance of registration for abiding by Australian laws. They believed such an approach would appeal to providers who were at the time unregistered because they were unaware of the regulations.

The ARS providers noted that there were opportunities to provide training for ARS providers on the benefits of working with the AUSTRAC system. Some of the ARS providers expressed concern with the extent of reporting required, in terms of complexity, frequency and time taken. They suggested that it would be beneficial to provide assistance to business regarding successfully meeting reporting requirements.

Finally, the ARS providers suggested that if the government was keen to educate both providers and users about the current system and how to minimise the risks of misuse, it would be important to utilise word of mouth, which at the time of interview was a critical information tool in the ARS environment. ARS providers emphasised that they were interested in a regulatory system that was cheap, intelligible and applied to all who provide ARS services.

Community and provider comments regarding future regulatory directions

Both ARS users and ARS providers commented on the directions regulation should take in the future. These suggestions included:

- lowering the cost of formal transfer services to improve and streamline financial laws and regulatory systems which would then open up the market to more providers and promote competition;

- acknowledgement that competition and an increased number of service providers eventually help lower costs and improve the quality and range of transfer services available to migrants;
- simplification of the paperwork and other procedures required of migrants to use formal remittance services; participants suggested that part of the reason why many migrants choose to use private money transfer companies like Western Union is because their money transfer procedures are simple;
- improved data collection and research on remittances;
- centralised data collection and reporting mechanisms that help to more accurately track remittance transfers, at least those which flow through banks and other formal financial institutions;
- enhancement of policies and programs to facilitate the development impact of remittances; and
- consultation with communities and providers by governments, either directly or through larger-scale workshops and conferences.

The consultants suggested that technological change is having an impact on the practice of remittance. Remittances are now sent through electronic transfer processes that operate through a combination of messaging and inter-bank clearing processes. The use of mobile phones is also having a major impact on how remittance work is carried out.

The role of communities in regulating alternative remittance services

The involvement of the communities who use ARS in regulation would be an effective way of changing provider behaviour. Comments from the Filipino and Somali communities, and the ARS providers who service those communities, suggested that it was community pressure that would enforce change among providers. One ARS provider commented with regard to distribution of information and education to the communities generally:

You could focus on providers, but the real emphasis should be on the community. They are a very powerful force. If they think you are not doing

the right thing by them, then they will make sure that everyone in the community knows about this. This then means that the business will eventually dry up. The problem is when it's not about the quality of the service, but the fact that that person hasn't registered. So you really do need to start with the community (ARS user personal communication 2008).

Another ARS provider commented:

If you could show these providers who haven't registered that the community is becoming more aware of the law, then it's easier to be saying to them that it makes good business sense to comply with the new rules and regulations (ARS provider personal communication 2008).

There was limited awareness among consumers of government regulations and the potential level of security it provides. While there was an assumption that there were regulations in place, and that these offer protection to consumers, users suggested it was important that they were educated about the regulations and the need to ensure the provider they use was registered (encouraging a call-to-action for users to check the level of registration with their current providers). They suggested that it would also be beneficial to provide information on the safeguards that regulation provides. While there was little concern among users with regard to individual ARS transactions, the results from ARS providers suggested that they were very responsive to consumer needs. Therefore, having informed consumers that deliberately choose registered providers may well increase the level of registration.

Government initiatives

In 2005, the UK Department of International Development began setting up *Send Money Home* websites for a number of communities. These websites enable those who wish to send a remittance to compare the rates of various remittance companies. In 2008, DFID claimed that the cost of sending £100 to countries affected by this program had fallen by an average of 2.5 percent since 2005 and that remittance costs for the British Indian community (the United Kingdom's biggest ethnic minority) had fallen by over 20 percent. Vlcek

(2008) suggested that users will still prefer to use the cheapest possible service and that government attempts to channel finances into more expensive and monitored channels represents an infringement on civil liberties. He also suggested that such initiatives are not likely to be effective in stopping remittance funds being used for terrorist purposes when such acts are funded locally (Vlcek 2008). This last point is hard to deny, but the commentator does not address the issue of whether such initiatives may provide a deterrent when money is being sent between jurisdictions for the purpose of funding terrorism.

At an international level, AusAID and NZAid (acting through a London-based consultant, Developing Markets Associates Ltd), are currently involved in an initiative that aims to lessen the cost of sending remittances throughout the Pacific region (Rishworth 2009). The rationale behind the project is that remittance costs in the Pacific are seen as being high (approximately 13% compared to a world average of 10%). It should be noted that even if these figures are accurate, they are higher than the commission charged by many alternative remittance providers (which range from 1% to 6%).

Initiatives such as the AusAID and NZAid project may be relevant to the Pacific because of the high level use of formal remitters and the relative lack of competition (Shaw & Eversole 2007). However, they are less likely to be relevant where there is a high level of use of alternative remittance and a considerable degree of competition; for many people who use alternative remittance, such projects are still likely to be too expensive and possibly too slow and formal in their style of operation. In a sense, they may go against the basic desire of the remitter to ensure as much of the money as possible goes to the recipient and as little as possible goes to the agent, whatever form that agent may take.

One possible government initiative that may be of assistance to ARS users is making publicly available a copy of the PoDRS Register. This would allow ARS users to choose ARS providers who were properly registered and would provide an incentive for ARS providers to make the effort to register. However, such an initiative has limitations. Assuming privacy considerations could be satisfied, it would require a policy decision as to how much responsibility the

body providing the list would have to take to ensure that the list remained accurate. The fluid nature of the industry and the large number of providers (particularly sole traders) would possibly make it difficult to ensure that the list remained current. Such a list would serve the interests of a regulator in encouraging registration as a PoDRS but it may not do much to address the consumer protection issues raised by users unless it is linked to a complaints mechanism. The use of such a complaints mechanism to affect decisions regarding the PoDRS Register could in turn raise natural justice issues. The organisation responsible for the list would need to make at least a certain level of contact with users to ensure that ARS users were aware of the existence of the Register. There may also need to be consideration of whether such a Register would need to be made available in a variety of languages.

International developments have led to a far greater interest in the practice of alternative remittance and much of this is based on the belief that various aspects of alternative remittance make it vulnerable to use by criminal or terrorist elements. As a result, jurisdictions have reacted with a variety of regulatory regimes, although research suggests that the guidelines produced by FATF have had a profound impact on the actions of many governments and the regimes that are being introduced are very much affected by these guidelines. Australia has introduced the 2006 legislation at least in part to ensure that it fulfils the requirements set out in the FATF guidelines. The FATF guidelines are in fact very broad but they do place an emphasis on action by government and on a perceived need to increase the similarity of the regulation of an increasing number of financial sectors through the application of the FATF 40 Recommendations and Special Recommendations. The differences between these sectors make this approach problematic. The FATF guidelines regarding the application of a risk-based approach by MSBs demonstrates that FATF appreciates that the same approach cannot always be applied to all participants in a particular sector when the participants differ substantially in size and sophistication.

This report was based on a small study of community members and remittance providers drawn from five Australian ethnic communities so its findings must therefore be treated with some caution. However, it was apparent that the ARS users interviewed had

reservations about the current ARS system (although their concerns tended to relate more to commercial issues such as the problem of resources being diverted overseas), but they supported remittance in general, and ARS in particular, because they saw it as fulfilling a legitimate need which the formal financial sector does not yet fully satisfy.

Many users have little knowledge of how the ARS system works and what sort of regulatory system was currently in place for ARS, although generally they assumed there was regulatory system protecting their interests and lessening the chance of ARS users being cheated. This lack of knowledge concerned at least some ARS users, who expressed a strong interest in obtaining more information on the regulatory system currently in place. This was linked to concerns that people sending money overseas (either through corporate remitters or ARS) might be at risk of prosecution for assisting terrorist organisations. Although users had experienced very little difficulty with using ARS at a personal level, they had concerns regarding the impact of possible misbehaviour by some ARS providers and ARS providers resent those providers who do not comply with relevant regulations.

Communities and ARS providers were interested in greater education regarding any possible advantages provided by the current regulatory system, both for ARS providers and users. The challenge lies in making effective contact with ethnic communities, as many ethnic communities may be wary of direct contact with government, and such contact may need to be established through intermediaries such as consultants who are familiar with the customs and languages of the ethnic communities in question. This may be an expensive process, but introducing the regulatory machinery to administer a licensing and/or 'fit and proper person' test would not be inexpensive either. Such consultations may represent an opportunity to involve communities in the regulation of ARS providers. The fact that there is support for a reporting mechanism shows that communities have a pragmatic interest in ensuring they are not cheated. The provision of simple reporting mechanisms would also assist regulators and law enforcement in more efficiently targeting those ARS providers whom they suspect of wrongdoing.

Such initiatives may, to some extent, allow for communities to take part in the co-regulation of alternative remittance, although the extent of such involvement might well vary substantially between communities. It is possible that communities who rely most heavily on alternative remittance channels because their country of origin cannot support financial structures might be the most interested in being involved in such regulation precisely because they have the most to lose if the alternative remittance system is compromised.

There is currently an environment of mistrust regarding ARS. This mistrust is demonstrated by regulators, law enforcement agencies and, it would seem, by numbers of ARS users who only have a limited knowledge of the system which is currently moving their remittances. Nor do the ARS providers who are part of larger organisations always seem to understand how the ARS system works beyond the immediate transactions in which they are personally involved.

This report notes that there are a number of concerns regarding alternative remittance that need to be addressed. Some of these concerns relate to the issue of how to determine the most effective method of regulating remittance providers of all kinds, with a particular emphasis on alternative remittance providers. This report shows that the communities who use alternative remittance were supportive of regulation and interested in consultation on what form such regulation should take. They wished to protect the system and ensure they were not at risk from it.

Regulators and law enforcement have a legitimate interest in determining to what extent alternative remittance can be linked to illegality. However, many communities who use alternative remittance were concerned that the practice was being unfairly targeted. A complaints mechanism would allow the community a role in policing alternative remittance and enabling such a mechanism to be anonymous would address community concerns regarding possible reprisals from those who are the subject of reports. A complaints mechanism has the potential to allow regulators and law enforcement greater access to community information regarding abuse of alternative remittance.

A possible initiative flowing from the Australian requirement for registration is the possibility that a

list of registered PoDRS could be made publicly available. However, this proposal does have practical difficulties. Leaving aside privacy issues, the fluid nature of the industry and the possibility of substantial language barriers would make it very difficult to keep such a list up to date. Consultations suggest that many ARS users might be interested in consulting such a list.

There has been considerable international support for the long term goal of transferring as much of the remittance industry as possible to the formal sector. Although, such a goal is likely to be impractical without substantial government support for the formal sector and even then, unsuccessful governments could attempt to close down the alternative remittance industry altogether. But history suggests it is very resilient and that such an approach would alienate many communities and do considerable harm to the innocent. The evidence relating to links between various forms of criminality and alternative remittance is fragmentary and would not justify such an approach. The reality may be that alternative remittance will remain in operation as long as it fulfils certain needs and that a regulatory structure needs to both accommodate the large proportion of transactions that are innocent and the relatively small number of transactions (which may involve substantial sums of money) that can be linked to illegal activity.

In view of the nature of the remittance industry, a top-down imposition of regulation is likely to have limited success, particularly with regard to smaller businesses. In dealing with such businesses, a more consultative and community-based approach is likely to prove more effective in the long run in increasing levels of compliance and lessening risk.

Potential directions for future research

The research undertaken for this report would suggest that there are a number of issues relating to ARS that require clarification. These include:

- physical behaviour associated with the use of ARS that may be misinterpreted by regulators or law enforcement. This behaviour can take many forms. The physical operation of an ARS can lead

to people congregating near it, including young people who may be there to provide assistance to older people. The physical presence of large numbers of people can lead to a number of negative interpretations, including drug selling. Testing this perception may be useful.

- financial behaviour associated with the use of ARS that may be subject to misinterpretation. It would appear to be common for people to pool money so that it can be sent to the country of origin to help with a festival or with a community project or to provide assistance due to natural disaster. The funds in question may be sent by one individual, which can arouse suspicions against that individual.
- to what extent is ARS used for transactions that are purely commercial in nature as distinct from transactions that are commercial in nature but that take place between family members?;
- what are the factors that lead to ethnic communities and individuals within such communities choosing between the use of corporate remittance and alternative remittance? Is concern over misuse of the system a major factor in the decision? The material derived from these consultations would suggest that security is a factor in the making of this decision, although very few of the participants reported any problems in dealing with the ARS system and the corporate remittance sector may be more expensive, slower (depending on agent availability and less culturally sensitive than the ARS sector);
- what is the significance of issues relating to trust and ethnicity when members of ethnic communities use corporate remitters?
- how do principal remitter (or super agents) interact with agents (both with corporate remitters and ARS), particularly with regard to the provision of training regarding AML and CTF issues?
- how vulnerable is the corporate remittance sector to misuse, particularly due to the use by major corporate remitters of large numbers of agents and sub-agents?
- what is the impact of new technology on alternative remittance with particular reference to the possible resultant decline in the use of agents and sub-agents, and the role of mobile phones?
- to what extent can ethnic communities be involved in determining the nature of a regulatory system, and could they have a role in enforcing a regulatory system?;
- to what extent are regulators aware of the nature of the ethnic communities that generate the demand for ARS?
- To what extent are the same ARS providers simultaneously meeting the needs of both illegitimate and legitimate users of ARS?

References

All URLs correct at 25 March 2010

Allam L 2008. *Remittances—flying money*. 5 October. <http://www.abc.net.au/rn/backgroundbriefing/stories/2008/2375175.htm>

Asia/Pacific Group on Money Laundering (APG) 2009. *APG yearly typologies report 2009*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2008. *APG typologies report 2008*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2007. *APG mutual evaluation report on Chinese Taipei*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2006. *Second mutual evaluation report on Samoa*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2005a. *Mutual evaluation report on India*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2003. *APG typologies working group on alternative remittance and underground banking systems: Alternative remittance regulation implementation package*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2001. *Money laundering methods and typologies workshop*. Sydney: APG

Asia/Pacific Group on Money Laundering (APG) 2000. *APG typologies: Working group on alternative remittance and underground banking*. Sydney: APG

AUSTRAC 2009a. *Typologies and case studies report 2009*. Sydney: AUSTRAC. http://www.austrac.gov.au/typologies_2009.html

AUSTRAC 2009b. *AUSTRAC supervision strategy 2009–10*. Sydney: AUSTRAC. http://www.austrac.gov.au/files/supervision_strategy_booklet_external_aug09.pdf

AUSTRAC 2009c. *Explanatory note for consultation*. http://www.austrac.gov.au/files/draft_rule_amend_chp2.pdf

AUSTRAC 2009d. *Remedial directions*. http://www.austrac.gov.au/remedial_directions.html

AUSTRAC 2009e. *Explanatory note for consultation purposes*. http://www.austrac.gov.au/files/draft_rule_register_pdrs.pdf

AUSTRAC 2008a. *Annual report 2007–08*. Sydney: AUSTRAC. http://www.austrac.gov.au/files/austrac_annual_report_2007-08.pdf

AUSTRAC 2008b. *Typologies and case studies report 2008*. Sydney: AUSTRAC. http://www.austrac.gov.au/typologies_2008.html

AUSTRAC 2007a. *Typologies and case studies report 2007*. Sydney: AUSTRAC. <http://www.austrac.gov.au/typologies2007.html>

Australian Bureau of Statistics (ABS) 2008. *Migration, Australia 2006–7*. cat. no. 3412.0. Canberra: ABS

Australian Crime Commission (ACC) 2007. *Organised crime in Australia*. Sydney: ACC

Ballard R 2003a. *A background report on the operation of informal value transfer systems (hawala)*. Manchester: University of Manchester Centre for Applied South Asian Studies

- Ballard R 2003b. *Processes of consolidation and settlement in remittance-driven Hawala transactions between the UK and South Asia*. Manchester: Centre for Applied South Asian Studies University of Manchester. <http://www.arts.manchester.ac.uk/casas/papers/pdfpapers/consolidation.pdf>
- Barham J 2008. Click to send illegal money. *Security Management* 52(7): 40–41
- Bensoussan A & Myers P 1996. *Towards a safer choice: The practice of traditional Chinese medicine in Australia*. Sydney: Faculty of Health, University of Western Sydney
- Black J 2002. Critical reflections on regulation. *Australian Journal of Legal Philosophy* 27: 1–35
- Buencamino L & Gorbunov S 2002. *Informal money transfer systems: Opportunities and challenges for development finance*. DESA discussion paper no. 26. <http://www.un.org/esa/desa/papers/2002/esa02dp26.pdf>
- Carlton A 2002. Occupational regulation of complementary medicine practitioners, in Smith RG (ed), *Crime in the professions*. Burlington, VT: Ashgate
- Carroll L 2000. *Alternative remittance systems distinguishing sub-systems of ethic money laundering in Interpol member countries on the Asian continent*. <http://www.interpol.int/public/FinancialCrime/MoneyLaundering/EthnicMoney/default.asp>
- Cassidy WL 1994. *Fei-chien or flying money: A study of Chinese underground banking*. <http://www.michelpicard.ca/document/013.pdf>
- Central Bank of the UAE 2004. Conference statement: Second international conference on hawala, CBUAE: Abu Dhabi, 5 April. <http://www.cbuae.gov.ae/Hawala/statement-E.htm>
- Charan R & Aiken S 2005. *The impact of international informal banking on Canada: A case study of Tamil transnational money transfer networks (Undiyal), Canada/Sri Lanka*. <http://dalspace1.library.dal.ca/dspace/handle/10222/11011>
- Choo KKR 2010. Challenges in dealing with politically exposed persons. *Trends & Issues in Crime and Criminal Justice* no. 386. Canberra: Australian Institute of Criminology. <http://www.aic.gov.au/publications/current%20series/tandi/381-400/tandi386.aspx>
- Coady MM 2002. The role of codes of ethics in preventing professional crime, in Smith RG (ed), *Crime in the professions*. Burlington, VT: Ashgate
- Collins R 2008. Responding to the threat of fraud and financial crime: Measuring informal value transfer systems. Presented at 26th annual symposium on economic crime. University of Cambridge: 31 August–7 September
- Connell J & Brown R 2005. *Remittances in the Pacific: An overview*. Philippines: Asian Development Bank. <http://www.adb.org/Documents/Reports/Remittances-Pacific/default.asp>
- Consultation Group to Assist the Poorest (CGAP) 2008. *Regulating transformational branchless banking: Mobile phones and other technology to increase access to finance*. Focus note no. 43: January 2008. http://www.cgap.org/gm/document-1.9.2583/FocusNote_43.pdf
- Deitz A & Buttle J 2008. *The anti-money laundering handbook: A business guide to complying with the AML/CTF legislation*. Sydney: Lawbook Company
- De Luna-Martinez J, Endo I & Barbaris C 2006. *The Germany–Serbia remittance corridor: Challenges of establishing a formal money transfer system*. World Bank working paper no. 80. Washington: The World Bank
- Dougherty J 2006. Hawala: How terrorist move funds globally. *Corporate Finance Review* May/June: 28–36
- Financial Action Task Force (FATF) 2009. *Risk-based approach: Guidance for money service businesses*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/45/1/43249256.pdf>
- Financial Action Task Force (FATF) 2008a. *Third mutual evaluation on anti-money laundering and combating the financing of terrorism: Canada*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf>
- Financial Action Task Force (FATF) 2008b. *Third mutual evaluation on anti-money laundering and combating the financing of terrorism: Singapore*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/36/42/40453164.pdf>
- Financial Action Task Force (FATF) 2008c. *Terrorist financing*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/28/43/40285899.pdf>
- Financial Action Task Force (FATF) 2008d. *Money laundering & terrorist financing risk assessment strategies*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/46/24/40978997.pdf>
- Financial Action Task Force (FATF) 2007. *Third mutual evaluation report anti-money laundering and combating the financing of terrorism: the United Kingdom of Great Britain and Northern Island*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/55/29/39064399.pdf>
- Financial Action Task Force (FATF) 2006a. *Third mutual evaluation report on anti-money laundering and combating the financing of terrorism: United States of America*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/44/12/37101706.pdf>
- Financial Action Task Force (FATF) 2006b. *Report on new payment methods*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/30/47/37627240.pdf>
- Financial Action Task Force (FATF) 2006c. *Third mutual evaluation report anti-money laundering and combating the financing of terrorism: Hong Kong, China*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/19/38/41032809.pdf>
- Financial Action Task Force (FATF) 2005a. *Money laundering & terrorist financing typologies 2004–2005*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/16/8/35003256.pdf>

- Financial Action Task Force (FATF) 2005b. *Summary of the third mutual evaluation report anti-money laundering and combating the financing of terrorism: Australia*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/22/38/35509034.pdf>
- Financial Action Task Force (FATF) 2003a. *Interpretative note to special recommendation VI: Alternative remittance*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/53/34/34262291.PDF>
- Financial Action Task Force (FATF) 2003b. *Combating the abuse of alternative remittance systems: International best practices*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/39/17/34033713.pdf>
- Financial Action Task Force (FATF) 2003c. *The 40 recommendations*. Paris: FATF. http://www.fatf-gafi.org/document/28/0,3343,en_32250379_32236930_33658140_1_1_1_1,00.html
- Financial Action Task Force (FATF) 2003d. *9 special recommendations*. Paris: FATF. http://www.fatf-gafi.org/document/9/0,3343,en_32250379_32236920_34032073_1_1_1_1,00.html
- Financial Action Task Force (FATF) 2002. *Report on money laundering typologies 2001–2002*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/29/35/34038006.pdf>
- Financial Action Task Force (FATF) 2000. *Report on money laundering typologies 1999–2000*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/29/37/34038120.pdf>
- Financial Action Task Force (FATF) 1999. *1998–1999 report on money laundering typologies*. Paris: FATF. <http://www.fatf-gafi.org/dataoecd/29/38/34038177.pdf>
- FinCEN 2008. Sigue Corp and Sigue, LLC of California to pay \$15 million to U.S. Government for anti-money laundering program deficiencies. *Media release* 28 January. http://www.fincen.gov/news_room/nr/html/20080128.html
- FinCEN 2004b. FinCEN assesses \$25 million civil money penalty against Riggs Bank N.A. *Media release* 13 May. http://www.fincen.gov/news_room/nr/html/20040513.html
- Grabosky P 1995. Regulation by reward: On the use of incentives as regulatory instruments. *Law and Policy* 17(3): 257–282
- Gup BE 2007. *Money laundering, financing terrorism and suspicious activities*. New York: Nova Science Publishers
- Hamza BM 2006. *A report on the Somali remittance sector in Canada*. New York: York University
- Hancox E 2008. Immigrant lives hanging on a telephone. *New Statesman* 137 (4914): 21. <http://www.newstatesman.com/society/2008/09/mobile-networks-families>
- Hernandez-Coss R 2005a. *The U.S.–Mexico remittance corridor: Lessons on shifting from informal to formal transfer systems*. World Bank working paper no. 47. Washington DC: The World Bank
- Hernandez-Coss R 2005b. *The Canada–Vietnam remittance corridor: Lessons on shifting from informal to formal transfer systems*. World Bank working paper no. 48. Washington DC: The World Bank
- Hilgert M et al. 2005. *Banking on remittances: Increasing market efficiencies for consumers and financial institutions*. Paper presented at Federal Reserve System Community Affairs Research Conference, 7–8 April 2005, Capitol Hill, WA. http://www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf
- Houssein MD 2005. Somalia: The experience of hawala receiving countries. *Regulatory Frameworks for Hawala and Other Remittance Systems* 1: 87–93
- Howlett C 2001. *Investigation & control of money laundering via alternative remittance & underground banking systems*. Sydney: Churchill Trust. <http://www.ncjrs.gov/pdffiles1/190720.pdf>
- Inter-American Development Bank (IADB) Multilateral Investment Fund 2006. *Sending money home: Leveraging the development impact of remittances*. Washington DC: IADB. http://www.iadb.org/news/docs/remittances_en.pdf
- International Fund for Agricultural Development (IFAD) 2007. *Sending money home: Worldwide remittance flows to developing and transition countries*. <http://www.ifad.org/remittances/maps/index.htm>
- International Monetary Fund (IMF) 2005. *Regulatory frameworks for hawala and other remittance systems*. Washington: IMF. <http://www.imf.org/external/pubs/ntf/2005/hawala/hawala.pdf>
- Johnson J 2008. Third round FATF mutual evaluations indicate declining compliance. *Journal of Money Laundering Control* 11(1): 47–66
- Jost P & Sandhu H 2000. *The hawala alternative remittance system and its role in money laundering*. Lyons: Interpol General Secretariat. <http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/Hawala/default.asp>
- Keene S 2007. Hawala and related informal value transfer systems—an assessment in the context of organised crime and terrorist finance: is there cause for concern? *Security Journal* 20: 185–196
- Maimbo SM 2005. Challenges of regulating and supervising the hawaladars of Kabul, in International Monetary Fund (ed), *Regulatory frameworks for hawala and other remittance systems*. Washington DC: International Monetary Fund
- Maimbo SM 2004. *The regulation and supervision of informal remittance systems: Emerging oversight strategies*. Seminar on current developments in monetary and financial law. <http://www.imf.org/external/np/leg/sem/2004/cdmfl/eng/maimbo.pdf>

- Maimbo SM 2003. *The money exchange dealers of Kabul: A study of the hawala system in Afghanistan*. World Bank working paper no. 15. Washington DC: The World Bank
- McCusker R 2005. Underground banking: Legitimate remittance network or money laundering system? *Trends & issues in crime and criminal justice* no. 300. Canberra: Australian Institute of Criminology. http://www.aic.gov.au/publications/current_series/tandi/281-300/tandi300.aspx
- McKenzie N 2006. Exposed: Multimillion-dollar drug network. *The Age* 23 December. <http://www.theage.com.au/news/national/exposed-multimilliondollar-drug-netwo rk/2006/12/22/1166290743054.html>
- Minichiello V, Aroni R, Timewell E & Alexander L 1990. *In-depth interviewing: Researching people*. South Melbourne: Longman Cheshire
- Money Transfer International 2009. *Banks label money transfer operators as risky*. <http://www.moneytransferint.org/index.php?pageID=2&type=member&newswireIssueID=2&newswireArticleID=16&newswireLink=cfsboheztzmztlodwblbicnchnqitwgytihnokwjwjmjxm>
- Passas N 2008. Dirty money? Tracing the misuse of hawala networks. *Janes Intelligence Review* 20(3): 42–45
- Passas N 2006. Fighting terror with error: The counter-productive regulation of informal value transfers. *Crime Law and Social Change* 45: 315–336
- Passas 2005a. *Informal value transfer systems terrorism and money laundering*. Washington DC: US Department of Justice
- Passas N 2005b. Formalising the informal? Problems in the national and international regulation of hawala, in International Monetary Fund (ed), *Regulatory frameworks for hawala and other remittance systems*. Washington: International Monetary Fund
- Passas N 2004. Law enforcement challenges in hawala-related investigations. *Journal of Financial Crime* 12(2): 112–119
- Passas N 2003. *Hawala and other informal value transfer systems: How to regulate them?* Washington DC: US Department of State
- Passas N 1999. *Informal value transfer systems and criminal organisations: A study into so-called underground banking networks*. Netherlands: Ministry of Justice
- Prakash PK 2007. Dealing with small MSBS. Presented at ABA/ABA Money Laundering Enforcement Conference, Marriott Wardman Park Hotel, October 21–23, Washington DC
- Ratha D, Mohapatra S & Xu Z 2008. *Outlook for remittance flows 2008–2010*. Migration and development brief no. 8. Washington DC: The World Bank. http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MD_Brief8.pdf
- Ratha D, Mohapatra S, Vijayalakshmi KM & Xu Z 2007. *Remittance trends 2007*. Migration and development brief no. 3. Washington DC: The World Bank. <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/BriefingNote3.pdf>
- Razavy M 2005. Hawala: An underground haven for terrorists or social phenomenon? *Crime, Law and Social Change* 44: 277–299
- Money Laundering Prevention Centre 2007. *Annual report*. Republic of China, Taiwan: Ministry of Justice Investigation Branch
- Rishworth A 2009. Remittance website to help Pacific Islanders. *Media release* 27 March. http://www.ausaid.gov.au/media/release.cfm?BC=Media&ID=5409_6262_8387_3545_1745
- Roberge I 2007. Misguided policies in the war on terror? The case for disentangling terrorist financing from money laundering politics. *Politics* 27(3): 196–203
- Rodriguez AL 2007. Presentation. MoneyGram International ABA Conference
- Serious and Organised Crime Agency (SOCA) 2009. *The United Kingdom threat assessment 2008/9*. London: SOCA
- Serious and Organised Crime Agency (SOCA) 2007. *The United Kingdom threat assessment of serious organised crime 2006/7*. London: SOCA
- Shah A 2007. The international regulation of informal value transfer systems. *Utrecht Law Review* 3(2): 193–218
- Shaw J & Eversole R 2007. *Leveraging remittances with microfinance*. Canberra: AusAID. http://www.ausaid.gov.au/publications/pubout.cfm?ID=564_9030_5946_1258_8278
- Sheikh H & Healy S 2009. *Somalia's missing million: The Somali diaspora and its role in development*. New York: UNDP
- Sproat P 2007. The new policing of assets and the new assets of policing. *Journal of Money Laundering Control* 10(3): 277–299
- Stewart C 2007. Islamic extremists 'fundraising for terrorists'. *news.com.au* 23 April. <http://www.news.com.au/story/0,23599,21601871-2,00.html>
- Suskind R 2006. *The one percent doctrine*. New York: Simon and Schuster
- United States Department of Justice 2008. Houston money remittance business owner convicted of money laundering and failing to file CTRs. *Media release* 21 July. <http://houston.fbi.gov/dojpressrel/pressrel08/ho07212008.htm>
- United States Department of the Treasury 2008. Treasury targets FARC financial network in Colombia. *Press release* 22 April. <http://www.treasury.gov/press/releases/hp938.htm>

United States Department of the Treasury 2007. *National Money Laundering Strategy*. Washington DC: Department of the Treasury

United States Department of Treasury 2002. *A report to the Congress in accordance with section 359 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001*. http://www.fincen.gov/news_room/rp/files/hawalarptfinal11222002.pdf

United States General Accounting Office 2003. *Terrorist financing: US agencies should systematically assess terrorists' use of alternative financing mechanisms*. Washington DC: General Accounting Office <http://www.gao.gov/new.items/d04163.pdf>

United States Senate 2002. Committee on Banking, Housing and Urban Affairs of the United States Senate 2002. *Hawala and underground terrorist financing mechanisms: Hearing before the Subcommittee on International Trade and Finance of the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Seventh Congress, first session, on Hawalas and underground terrorist financing mechanisms: informal international financing networks that can serve as a pipeline of funds for terrorist [sic]*, November 14, 2001. http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_senate_hearings&docid=f:81714.pdf

UNODC 2003. *United Nations Convention against corruption*. http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf

UNODC 2000. 55/25: *United Nations convention against transnational organized crime*. http://www.unodc.org/pdf/crime/a_res_55/res5525e.pdf

Viles T 2008. Hawala, hysteria and hegemony. *Journal of Money Laundering Control* 11(1): 25–33

Vlcek W 2008. Development vs terrorism: Money transfers and EU financial regulations in the UK. *British Journal of Politics and International Relations* 10: 286–302

Vlcek W 2006. *Development v terrorism—migrant remittances or terrorist financing?* <http://www2.lse.ac.uk/internationalRelations/centresandunits/EFPU/EFPUpdfs/EFPUchallengewp6.pdf>

Waldo MA 2006. Somalia remittances: myth and reality, in Maimbo S (ed), *Remittances and economic development in Somalia: An overview*. Social Development Papers. Conflict prevention & reconstruction paper no. 38. http://siteresources.worldbank.org/EXTCP/Resourses/WP38_web.pdf?resourceurlname=WP38_web.pdf



Appendixes

Appendix A

Ethnic community representatives (one-on-one interview questions)

- (1) Do you or your communities use ARS providers and, if so, what are the reasons behind the decision to do so?
- (2) What are your views of the formal banking system (both banks and organisations such as credit unions)?
- (3) Do you believe the formal system is:
 - (a) affordable
 - (b) quick
 - (c) reliable
- (4) Under what circumstances would you or your community consider using the formal banking system in order to transfer money? Do you already do so?
- (5) How do you believe the ARS system works?
- (6) Do you or your community use more than one system?
- (7) Are the ARS providers members of your community? Do you 'vet' them in any way before they are allowed to act as ARS providers within your community?
- (8) Do you know how members of your community make contact with ARS providers?
- (9) Do ARS providers advertise and, if so, how?
- (10) Do you know how large the average remittance is?
- (11) Do you know what the remittances are used for?
- (12) Are they sent to individuals or communities?
- (13) Do you know of any methods that people who send remittances may use to guard against their money being stolen or misused (eg for money laundering or terrorism)?
- (14) Are you aware of any cases of this occurring?
- (15) Does the sending of remittances decline with each generation?
- (16) Does it increase?
- (17) Are you aware of people bringing much money back into Australia through the remittance system? If so, what would such money be spent on?
- (18) Is your community aware of the need for remittance providers to be registered with AUSTRAC?
- (19) In your view, would the fact that an ARS provider was or was not registered with AUSTRAC make any difference to whether or not people in your community would use his services?

Ethnic community representatives (focus group questions)

- (1) What have been your experiences of the Australian formal banking and financial system?
- (2) Would you use it to transfer money and if not, why not?
- (3) Why and how does your community use ARS providers?
- (4) How do people in your community choose remittance providers?
- (5) In your experience, how does the ARS system work?

(6)	What are remittances used for in your country of origin?
(7)	Is the system used to bring money or value back into Australia?
(8)	Are you aware of any safeguards to stop the ARS system being used for criminal activity?
(9)	Are you or your community aware of the need for ARS providers to be registered with AUSTRAC?
(10)	What impact do you think such registration may have?

ARS providers (one-on-one interview questions)

(1)	When did you start to provide remittance services and where do you operate?
(2)	Are you a principal or an agent?
(3)	How many employees do you have?
(4)	How did you get into the remittance business?
(5)	Do you provide only remittance services or do you provide other services?
(6)	How does your remittance system work?
(7)	Do you use a number of systems?
(8)	In your experience, why do people send remittances?
(9)	How much do you charge to send a remittance?
(10)	What is the size of the average remittance that you send?
(11)	How many remittances would you send a year?
(12)	How many did you send last year? Is the number increasing?
(13)	What is the total value of the remittances you send each year?
(14)	What was the total value for last year? Is the total value increasing?
(15)	How would you describe your client base?
(16)	Do you send remittances for only one community?
(17)	How do you verify the identity of the remittance sender?
(18)	What sort of records are kept of the identity of the remittance sender and the transaction itself?
(19)	Do you verify who is receiving the remittance?
(20)	If so, how does this occur?
(21)	How is the remittance sent to the recipient?
(22)	How do they receive it?
(23)	How often are funds lost?
(24)	Do you know the cause?
(25)	How do you ensure funds are not stolen or diverted (eg for activities like money laundering or terrorism)?
(26)	Do you know what aspects of the AML/CTF Act and rules apply to your business?
(27)	Do you believe your business is required to be registered with AUSTRAC?
(28)	Do you believe AUSTRAC has provided sufficient guidance on the registration requirements for ARS providers?
(29)	Are you currently registered with AUSTRAC?
(30)	What are the factors behind your decision to register or not to register?
(31)	If you are not registered and are not intending to, what factors do you think would increase the likelihood of you registering?
(32)	Do you think you would lose clients if you registered?
(33)	Do you believe government regulation is effective in lessening the risk of money laundering or the financing of terrorism?
(34)	Do you believe ARS providers who have not registered should be prosecuted?

Appendix B

Plain language statement

This information sheet is for you to keep

Principal Researcher: Mr David Rees

Project Title: Alternative Remittance Systems (ARS)

The aim/purpose of the research

The aim of this study is to examine the nature and usage of ARS in Australia.

I am conducting this research to find out what forms of ARS are used in Australia, why people use ARS, to what extent are ARS providers registered in Australia and whether the level of registration can be improved, to what extent ARS services are used for criminal purposes such as money laundering and the financing of terrorism and how can any such use be minimised.

Why did you choose this particular person/group as participants?

You have been contacted by a social research consultant (or) an ethnic community organisation. If it is an ethnic community organisation, this organisation is no longer involved in this study and your individual responses will not be sent back to the organisation.

Possible benefits

The benefits of this research are that many aspects of ARS will be understood in greater detail and that some of the concerns expressed about perceived misuse of ARS may be alleviated. From your perspective, it would be of benefit to both you and your community if the ARS process was better understood.

What does the research involve?

The study involves focus groups and/or structured interviews.

How much time will the research take?

It is expected that participation in a focus group (that is a discussion of up to ten people meeting together with a person to lead the discussion) may take a number of hours and an individual interview may take up to one hour.

Inconvenience/discomfort

We do not anticipate that you will experience any level of inconvenience and/or discomfort as a result of participating in the interviews. We are seeking only general information about ARS and any information we

collect will not be able to identify you or your business in any way. If law enforcement agencies obtain a lawfully-issued warrant we would be required to let them have access to our notes of the interview, but these notes would not contain your name or other identifying information. You are free to stop the interview at any time if you are uncomfortable with proceeding.

Payment

You will receive no payment of any kind for taking part in this research.

Can I withdraw from the research?

Involvement in this study is completely voluntary—you are under no obligation to participate. If you do decide to participate you may withdraw at any stage or avoid answering questions which you feel are too personal or intrusive, or which cause you discomfort. You are not obliged to provide any reason for such withdrawal.

Confidentiality

Your identity will not be linked at any time to any specific information contained in any report produced as a result of this study. In responding to any lawful request for information gathered during focus groups or interviews, your name and other identifying information will not be able to be disclosed.

Storage of data

The data will be securely stored at the Australian Institute of Criminology. A report of the study may be submitted for publication, but individual participants will not be identifiable in such a report.

Use of data for other purposes

The data that you supply will only be used in connection with this particular research. This research may involve papers that are made available to the general public.

Results

If you would like to be informed of the aggregate research finding, please contact David Rees on 02 6260 9256 or at david.rees@aic.gov.au. If you would like counselling/debriefing facilities and trained personnel please contact <insert name> on <insert telephone number>.

If you would like to contact the researcher about any aspect of this study, please contact the Principal Investigator:

Mr David Rees

Phone: 02 6260 9256

Fax: 02 6260 9293

Email: david.rees@aic.gov.au

If you have a complaint concerning the manner in which this research on Alternative Remittance Systems is being conducted, please contact:

Secretariat

AIC Research Ethics Committee

Thank you.

<insert signature>

<type your name>

AIC Reports

Research and Public Policy Series 106

A heightened awareness of how terrorist activities are financed has led governments in developed countries to include alternative remittance systems within the regulatory controls that apply to conventional financial institutions. This report provides a review of the operation of alternative remittance systems in Australia and examines the risks that they pose for illegal movement of the proceeds of crime and financing of terrorist activities.

Australia's national research and
knowledge centre on crime and justice

www.aic.gov.au