

**INFORMAL VALUE TRANSFER SYSTEMS, MONEY LAUNDERING, AND THE FINANCING OF
TERRORISM: CANADA'S RESPONSE TO THE THREAT**

by

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Abstract

Informal Value Transfer Systems (IVTSs) are financial services that transfer funds through personal networks of the operators using various methods. IVTSs are mostly used by immigrants who want to send money back home to their families. Since the 9/11 attacks in 2001, these mechanisms have been the subject of heightened suspicion from the point of view of preventing money laundering and the financing of terrorism. This paper focuses on the typical hawala IVTSs in which transactions involve: a sender and a receiver, as well as intermediaries or trusted agents that carry out the receiving and delivering of cash or other value instruments. This paper aims to understand the links between IVTSs, money laundering and the financing of terrorism and focuses on Canada's response to the threat of financing of terrorism through IVTSs by reviewing the literature. The paper argues that authorities may have misunderstood the relationship between terrorism and money laundering and therefore continue to invest in policies that are not based on sufficient evidence. The available research shows that the IVTSs have been used more for money laundering than for financing terrorism, while terrorist organizations have tended to rely more on formal financial systems, such as wire transfers through established banks, than on IVTSs. Canada's Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime is focused on imposing compliance policies on the IVTSs and linking them to the formal financial sector. Canada's AML/CFT regime is not currently focused on vulnerable areas where potentially problematic financial transactions take place without sufficient oversight, including designated non-financial businesses, transactions facilitated by legal professionals, or transactions related to various charitable organizations. The effectiveness of that regime is also hindered by existing privacy protection laws which complicates the sharing of information and financial intelligence among law enforcement agencies and the effective use of that information for prevention, investigation and prosecution purposes.

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Acronyms

IVTS- Informal Value Transfer Systems

US- United States

MSB- Money Service Business

UN-United Nations

LTTE- Liberation Tigers of Tamil Eelam

FATF- Financial Action Task Force

IMF- International Monetary Fund

AML- Anti Money Laundering

CFT- Combating Financing of terrorism

CTF- Counter terrorism financing

ML- Money Laundering

FT- Financing of Terrorism

FINTRAC- Financial Transactions and Report Analysis Centre of Canada

ISIL- Islamic State of Iraq and the Levant

CTCBP- Counter terrorism capacity building programs

LEA- Law enforcement agencies

IO- intermediate outcomes

NRA- National regulatory authority

DNFBPS-Designated Non-Financial Businesses and Professionals

FINCEN- Financial Crimes Enforcement Network

GTD- Global Terrorism Database

IEP- Institute for Economics and Peace

GTI- Global Terrorism Index

ISIS- Islamic State

INSET- Integrated Security Enforcement Team

DTI- Deposit-Taking Institutions

BSA-Bank Secrecy Act

MER-Mutual Evaluation Report

BLA-Bank Laws Act

CSIS- Canadian Security Intelligence Services

CSEC- Communications Security Establishment Canada

RCMP- Royal Canadian Mounted Police

DFAIT- The Department of Foreign Affairs and International Trade

CBSA- Canadian Border Service Agency

CRA- Canada Revenue Agency

PCMLTFA- Proceeds of Crime (Money Laundering) and Terrorist Financing Act

NPO- Non-Profit Organizations

TFS- Targeted Financial Sanctions

CHAPTER 1 - INTRODUCTION

Informal Value Transfer Systems (IVTSs) are financial services that transfer funds through personal networks of operators using various methods. IVTSs have been used by people wanting to transfer value or money across borders for centuries. These IVTSs are essential in developing countries that depend upon them to provide services that the formal financial systems cannot provide. They have been known to be used by hard working immigrants to send some of their earnings back home to their families (Passas, 2003). However, labels such as 'alternative' and 'underground' banking systems undermine the importance of IVTSs to the global economy. The 9/11 attacks heightened focus on financing of terrorism and IVTSs have since been suspected in aiding and financing acts of terrorism through unregulated and unmonitored channels. As a consequence of these suspicions the global Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regimes have increased their focus on monitoring and controlling the activities of the IVTSs. The implementation of controls has caused unintended consequences and harm to innocent businesses and people that use these services (Neumann, 2017). This paper aims to understand the relationship of IVTSs, financing of Terrorism and Money laundering with a focus on threat Canada may be facing and on the Canadian AML/CFT regime's response to that threat. The paper offers some suggestions and recommendations on how that response may be strengthened.

CHAPTER 2 - UNDERSTANDING INFORMAL VALUE TRANSFER SYSTEMS

We can start understanding Informal value transfer systems by examining how they have been defined, their origins, history, and how they can be categorized.

Defining IVTS

The Informal Value transfer systems (IVTSs) have been labelled as 'alternate' or 'underground' banking systems because historically they have functioned outside the formal/conventional banking systems. Another reason that they are considered as 'alternate' or 'underground' systems is that they are often associated with lack of records and lack of regulations (Ballard, 2003). Due to the lack of research and understanding in the past, IVTSs were associated with anti-social elements and activities. Nikos Passas was one of the first researchers to establish a detailed study on IVTSs. His study in 1999 provided an insight into the ground realities of IVTSs and proved that terms like 'underground' or 'alternate' cannot always be associated with IVTSs (Passas,1999). In fact, in many countries, IVTSs are the primary financial system and function quite openly (Passas, 2003). He also argued that associating the term 'alternate banking systems' to IVTSs may not be fair as these systems predate the modern banking systems by centuries (Passas, 1999). Based on these observations Passas (1999) defines an IVTS as "any system or network of people facilitating, on a full-time or part-time basis, the transfer of value domestically or internationally outside the conventional, regulated financial institutional systems." (Passas, 1999, p.11). Passas, in a 2003 report, added to his 1999 definition of IVTSs and clarified that these systems do not always function independently of the formal financial sector and often use conventional banks and their services for settlement purposes and

part of the transfers (Passas, 2003). In addition, Anand (2007) reported that in some cases the whole transaction is done using conventional banking systems.

Hodge (2013) defines IVTSs in terms of their function as “any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form. The transfers generally take place outside of the conventional banking system through non-bank financial institutions or other business entities whose primary business activity may not be the transmission of money” (Hodge, 2013, p.3). The Financial Action Task Force (FATF), an inter-governmental body established in 1989 to develop and promote policies to protect the global financial systems against money laundering, defines IVTSs as systems that do not have a license or are not registered with the financial authorities (FATF, 2016, p.7).

Origin and Background

The origins of IVTS can be traced back to centuries ago, and the earliest references to hawala were found in the 11th-century legal commentary prepared by an Egyptian Scholar Sarakhshi, where long-distance trade featured hawala like transactions (Ballard, 2003, p. 3). In more recent history, IVTSs like ‘hawala/hundi’ (in the Indian subcontinent) and ‘Fei ch’ien’ (in China) developed for traders who wanted to travel without carrying large sums of money. Hawala in the Indian subcontinent was extensively used by people across the borders of India and Pakistan after movement restriction were imposed post-partition in 1947 (Passas, 1999). There was an increase in the use of Fei ch’ien by the Chinese after developments of distrust in banks, and political turmoil in the wake of communist takeovers in China (Passas, 1999). Both these ethnic groups have a long history of trade, commerce and immigration, and transferred money

from place to place. As trade and migration of workers increased and as they became more established and wealthier on foreign soil, they sent money back through these IVTSs to their families (Anand, 2007). Globalization moved IVTSs in different forms to different parts of the world, and as networks grew, it was a matter of time before the availability of such services grew to the western world as well. In the 1970s the monopoly that the IVTSs enjoyed had declined as the formal banking systems started taking their place (Ballard, 2003; Qorchi, 2003). Ballard (2003) explained stated that by the 1970's some immigrants, especially in the UK, became too wealthy and their transactions became too large for the hawala operators of that time; thus, the formal banking system stepped in and provided such services (Ballard, 2003). Further, around that time even smaller villages in Pakistan and India got formal bank branches and people started using the formal bank services instead of IVTSs (Ballard, 2003).

Types of IVTS

Anand (2007) provided a geographically relevant typology of IVTSs based on the types of IVTSs found in different parts of the world. His typology and terminology are still relevant when examining recent documents and standards put forward by the Financial Action Task Force (FATF) (FATF, 2013). According to that typology, in the Indian sub-continent, the 'Hawala' system is the major IVTS and relied on a worldwide network for transfer of funds, whereas in the same region 'Hundi' is associated to letters of credit, while; the Black market peso exchange networks have a presence in Africa and Asia; and the Fei ch'ien or door to door payments are typical IVTSs in China (Anand, 2007).

This paper focuses on the typical hawala type IVTSs (as described by Qorchi in 2003) in which transactions involve: a sender and a receiver, and the intermediaries of these transactions

are two trusted agents that carry out the receiving and delivering (Qorchi, 2003). An example of this would be, a person wanting to send money from America to a friend in Pakistan, contacting a local IVTS operator who, for a small commission on the transferred money or commission on the exchange rate, accepts the transfer amount and contacts a colleague in Pakistan who will deliver the money to the receiver. The accounts between the two IVTS operators are settled through various methods but they usually maintain a relationship of trust to complete the transaction smoothly till the settlement is done (Passas, 2003).

Recording of Transactions

IVTSs have different ways of conducting business depending on various regional, legal and cultural factors. The size of organizations running the IVTSs may affect the way records are maintained (Ballard, 2003). While some IVTSs have no records or undecipherable ones, others keep detailed ledgers (Passas, 2003a). Even though these are personal systems of banking, they are not record-less. Hawala systems heavily rely on memory, but they cannot function accurately without records as the transactions are sometimes very complex. Thus, in the early times, the traders developed their exclusive scripts which non-specialist could not decode (Ballard, 2003). IVTSs demand information flow on both sides of the transaction. While the old style IVTSs relied on promissory notes to convey such information, in the contemporary world technology steps in and this information is communicated by fax (Ballard, 2003). However, the records kept in IVTSs are strictly on a 'need to know' basis, where the agents would usually be expected to have instructions about the arrival of a consignment of money and to where it is to be sent (Ballard, 2003). Munshani (2005), in his study of IVTSs in Toronto, established that the unregistered financial agents-maintained ledgers or books as opposed to the formal agents who kept

computer records for transactions. He described the ledgers as records of the names of sender and recipients, phone numbers, and the amounts. He further noted that IVTS agents usually maintained records for not more than a year as the inter-agent settlements were usually completed within a year (Munshani, 2005).

Inter-Agent Settlements

According to Passas (2003), since there normally is no direct physical movement of money from one agent to another, capital flow imbalances are created when the flow of capital is mainly in one direction (Passas, 2003a). These imbalances are settled by cheques, wire transfers, physical cash transfers, bearer instruments, or money orders (Passas, 2003a). These variations are also settled through legal or illegal trade of goods ranging from gold and precious metals to medical equipment and textiles. Further, traders frequently use tactics like under-invoicing or over-invoicing the value of goods sent or imported, to settle accounts or generate funds to run the IVTS business (Passas, 2003). Passas (2003) reported that trade could be used for settlement purposes as under/over invoicing of goods and bogus sale of antiques helps generate profits that can be used as payments between agents (Passas, 2003, p. 53). The sale of discounted goods can also be used for settlements across borders by misappropriating the value of goods (Passas, 2003, p. 28). Hodge (2013) and Passas (2003) stated that negotiable instruments by way of legal transfer services could be used to settle accounts between agents (Hodge, 2013; Passas, 2003). This point also extends to other formal banking transfer services like wire transfers (Passas, 2003). Courier services have been used in the past to settle accounts between agents (Passas, 2003). Hodge (2013) states that in some cases the transfers between

the agents can be managed in such a way that over a longer period they even out each other (Hodge, 2013, p.6).

Why do people use IVTSs?

The re-emergence of IVTSs is directly linked to the rapid growth in the number of immigrants from third-world living and working in Europe and North America, who usually send “larger than before” sums of money as remittances to their families. Secondly, there has been an equally important growth in the businesses in the South, East, and South East Asia, where the formal restriction on the transfer of funds means that businesses move towards IVTSs as a faster, reliable and cheaper means of transfer (Ballard, 2003). The US Treasury Department uses the Financial Crimes Enforcement Network (FinCEN) for reporting and monitoring of its financial sector. FinCEN's (2002) report highlighted reasons such as political instability and weak financial sectors, high costs of banking services, avoidance of exchange rates, and avoiding currency reporting controls for using IVTSs (US Department of Treasury, 2002, p.3). Similar reasons were given by Jost and Sandhu (2000) in their report that found IVTSs to be a faster and more efficient financial service as compared to the formal sector (Jost and Sandhu, 2000, p.9). These studies seem to focus on money that has been going out of the west as immigrants send money back to their home countries but there has been no mention of money coming into western countries from the home countries. As people have established themselves in the west, they also gain wealth from sale of property and investments in their home countries. To avoid taxes that are applicable on transfers through the formal banking system people use IVTSs (especially hawala) to transfer such funds. The prevalence of IVTSs in the south-east Asia and the increasing

population of South-East Asians in Canada must pose some threat to the AML/CFT regime of Canada. The fact that these reports suggested that IVTSs were vulnerable to misuse of terrorists and criminals added to the bad reputation that IVTSs had. Post 9/11 IVTSs became a target for the security-driven regulations and enforcement. Which leads us to explore the relationship between IVTSs, money laundering, and the financing of terrorism.

CHAPTER 3 - RELATIONSHIP BETWEEN IVTSs, FINANCING OF TERRORISM AND MONEY LAUNDERING

Global Threat through IVTS

The latest iteration of the Global Terrorism Index (GTI) is based on data from the Global Terrorism Database (GTD), considered to be the most comprehensive global data base on terrorist activity (IEP, 2017). The GTI report (2017) suggests that since 2001 the global economic impact of terrorism has exhibited three identifiable peaks corresponding to three major terrorist events in 2001, 2007 and 2014 (IEP, 2017). An important observation from the report is that since 2013 the impact stats have remained high with a slight decrease from 2014 to 2016, this signifies that the global anti-terrorism efforts have not resulted in a significant decline in the impact of terrorism. The GTI report (2017) states that the Islamic State in Iraq and Levant (ISIL) has emerged as the deadliest and wealthiest terrorist group. The budget of ISIL peaked at \$US 2 billion in 2015, and the majority of their funds came from oil smuggling. The ISIL was producing up to 75,000 barrels a day and generated revenues of US\$ 1.3 million per day (IEP, 2017). The Financial Action Task Force (FATF) in the report- Financing of the terrorist organization Islamic State in Iraq and the Levant (ISIL) (2015) highlighted the role of Money and Value transfer companies that provide services in Iraq and Syria. These companies have established networks throughout the region which allows them to transfer funds, among other financial services. These companies offer wire transfer services, but instead of the physical movement of money they would inform their foreign associate via fax, telephone or email to pay or receive payment from the counterparty to a transaction (FATF, 2015). The FATF (2015) report found 20 formal financial institutions which operated in the ISIL held territories, some of which carried links to the international financial

system. This finding of the FATF (2015) report highlights the threat through the availability of transfer services to the ISIL. They can transfer and allocate funds through these networks to finance activities internationally. Considering the millions of dollars at their disposal and the vulnerabilities of IVTS it presents a considerable challenge for the current AML/CFT regime. This threat is not limited to the informal financial sector but extends to the formal financial sector as well. The global scope of the connection between the financing of terrorism and IVTS is largely unknown and difficult to measure, but this does not mean that the illicit financial flows can be ignored. The World Bank estimated cross-border illicit financial flows to be in the range of \$1-\$3 trillion annually, half of which is coming out of the developing countries (Baker & Joly, 2008-09). Historically, illicit funds travelling across borders have been associated with terrorist organizations as well. The terrorist organization Al-Qaida was funded by an illicit financial structure and was estimated to have transferred US\$30-\$50 million annually through fake foundations, disguised corporations, and bankers during the decade prior to the September 11, 2001 attacks (Baker & Joly, 2008-09). These findings lead us to believe that there are some connections between terrorist organizations and their use of Informal value transfer systems for financing their activities.

Threats to Canada

The report of the Commission of Inquiry into the Air India Bombing (2010) provided an assessment into Canada's historical threats from terrorism (Commission of inquiry, 2010). The Air India flight bombing was the worst terrorist attack in Canadian history and it was conducted by Sikh extremists claiming 329 lives, 280 of them were Canadians (Commission of inquiry, 2010). Civilians had been killed or injured in terrorist incidents even before the tragic bombing of Air

India Flight 182 in 1985 and there were policies in place with which the RCMP and the intelligence agencies gathered intelligence. The Commission Report (2010) highlighted the “failure of intelligence agencies” as the main reason for success of the attackers (Commission of Inquiry, 2010). Later, the Liberation Tigers of Tamil Eelam (LTTE) engaged in collecting funds from its communities in Canada, Australia, and the United Kingdom (Hoffman, 2010). LTTE activities furnished US\$1.5 million per month through a tax levied upon families in different countries (including Canada). Canadian Tamils, for instance, were reported to be taxed at a rate of US\$240 a year per household in 1999 (Hoffman, 2010). According to the Government of Canada, the three present main components of the terrorist threat to the country are violent Sunni Islamist extremism, other international terrorist groups and issue-based extremism (Government of Canada, 2013). A report of the Department of Public Safety Canada (2017) also highlighted a threat from small domestic cells and lone actors on Canadian soil working for foreign-based terrorist organizations raising funds in Canada to support their motives (Public Safety Canada, 2017). The heightened migration and mobility around the world leaves Canada vulnerable to the threat of homegrown terrorist (McCoy and Knight, 2015). The presence of homegrown terrorism in Canada was revealed by the events of late October 2014 when two attacks took place in two days. Further, there are threats posed by Canadians who support violent conflicts abroad (as in the case of LTTE in the past and ISIL in the present). The Canadian authorities according to FATF (2008) had already identified the scope of financing of terrorism on Canadian soil (FATF, 2008). Investigations have shown that the terrorist cells have generated funds locally. They have committed petty crimes, such as welfare fraud or credit card fraud, in addition to businesses that steal personal information and commit identity thefts (FATF, 2008). The methods that these

organizations use to generate funds were consistent over the years, the FATF in their mutual assessment report in 2016 suggested their methods primarily consist of: smuggling; money service businesses and currency exchange businesses; casinos; purchase of real estate; wire transfers; offshore corporations; foreign bank accounts; use of professional services (legal services) and the business of drugs (FATF, 2016). Analysis of the FATF (2008) and FATF (2016) report suggests that there has not been much change in the threats from ML/TF organizations to Canada. Further, the threats that are identified in these studies show a reliance of ML/TF entities on the formal financial sector rather than the informal sector. Though these threats are present and real the data does not show the use of informal value transfer systems for the financing of terrorism. They highlight the gaps in the formal financial sector that are being used by ML/TF organizations for their advantage. A reason for the lack of data on suggesting the use of informal systems could be that they are not recognized and registered and thus illegal, which moves them further underground and away from the eye of authorities. Apart from the formal banking system, Canada has other financial institutions/organizations that are part of the financial ecosystem and are seen by the authorities as vulnerable to abuse by terrorist organization and money laundering operations (FATF, 2008). Credit unions are cooperative financial institutions (owned and controlled by their members, their ownership, and corporate governance) based on cooperative objectives and principles, with the purpose to serve the member's financial needs (FATF, 2008). Money service businesses (MSB) are the firms that remit or transmit funds by any means possible (FATF, 2008). This threat extends to organizations or legal persons who issue or redeem money orders, travelers' cheques or other similar negotiable instruments. Designated non-financial businesses and professions (DNFBPs) are organizations such as casinos, real estate

agents, and accountants and dealers in precious metals, trust companies, accountants, lawyers) (FATF, 2008). The risks to Canada in terms of organized crime and money laundering and terrorism through the financing of terrorism has been identified by the authorities (FATF, 2008).

In addition, the Department of Finance (2015) reported the risks/threats to different financial sectors in Canada on the basis of their vulnerability to abuse (by financing of terrorism and money laundering). FinTRAC in its various reports also presented a risk assessment consistent with the Department of Finance. All the deposit-taking institutions (DTI) within Canada were reported to be at a high to a very high risk of vulnerability, and the domestic banks were rated as the most vulnerable (Department of Finance, 2015). The MSBs or Money Service Businesses were reported as a medium to very high risk for the variations in the size of the business models of these services (Department of Finance, 2015). Privately held corporate entities were reported to be the most vulnerable among all types of corporations. Corporations as a whole were rated as very highly vulnerable. Trusts and registered Charities as suggested before, maintain a very high vulnerability to be abused by terrorist organizations and money launderers (Department of Finance, 2015). Identifying guilty people is difficult in these cases which makes it difficult to freeze or seize assets. Another cash-intensive business that was reported as high risk was Brick and Mortar Casinos (Department of Finance, 2015). The Legal and accounting sectors in recent times have been highlighted as at a medium risk (Department of Finance, 2015) but they are still one of the few sectors that are not strictly monitored because of the privacy rights in Canada (FINTRAC, 2016). FINTRAC (2016) emphasized the vulnerabilities of the Real Estate sectors as well which was reported as high risk due to the large number of high-value financial transactions that are held on an ongoing basis (Department of Finance, 2015). Despite the reports of use of the

Canadian financial systems for TF purposes, in the Global Terrorism Index (2017), Canada was ranked 66th in the list of countries, measuring the impact of terrorism. This rank is a medium rating of threat according to the Index which is a great position considering that our closest neighbor United States is placed 32nd in the ranking where 1st (Iraq) is the most affected country (IEP, 2017). The analysis of Canada's threats from ML/TF do not highlight the Informal Value Transfer Systems as the main culprit in the Financing of terrorism. Nor has the global research indicated that the current terrorist organizations are laundering money through IVTS channels. In fact, the various sectors that identified as being at risk are part of the formal systems. This leads us to the question, why are IVTS subject to control and monitoring of the AML/CFT regimes?

CHAPTER 4 - WHY ARE IVTS SUBJECT TO CONTROL AND MONITORING OF THE AML/CFT REGIMES?

Keene (2007), raises a valid argument that it is mostly the negative perception of IVTS, due to the lack of understanding, and the complexities of the mechanics of IVTSs that has put it under the radar of the AML/CFT regimes (Keene, 2007). He further suggests that the lack of transparency due to these systems functioning outside the control of the AML/CFT regimes can be perceived as a threat (Keene, 2007). Keene's argument is certainly not without merit since, in the period that immediately followed the 9/11 attacks, national authorities, and in particular the United States of America, were motivated to include every vulnerable system that could contribute to the financing of terrorism.

9/11: The tipping point

Early research into Informal Value Transfer Systems (IVTS) has emphasized the September 11, 2001, attacks as a tipping point that shifted the focus towards the financing of terrorism and the use of IVTSs to facilitate it. Passas (2003), Ballard (2003), and Qorchi (2003) all explained that the September 11 events caused the US to draw policies that would shift IVTSs under the microscope (Passas, 2003; Ballard, 2003; Qorchi, 2003). IVTSs were perceived to be facilitating the flow of terrorism or crime related funds (Passas, 2003; Ballard, 2003; Qorchi, 2003). There were early suggestions that Taliban and Al-Qaida networks might have made use of IVTS for transfer of funds before the attacks (Passas, 2003). Further, in the U.S Department of Treasury (2002) report was stated that the USA Patriot Act, in Section 359, expanded the scope of the definition of 'financial institution' to include any persons or business involved in the transmission of funds (including an informal money transfer system, domestically or

internationally (U.S Department of Treasury, 2002). This shift in policy, imposed obligations on all the IVTSs functioning outside the conventional financial system. Since then, this argument has not changed. Even after the reports suggesting that the terrorist organizations used formal transfer systems to carry out the financing of the 9/11 attacks, the AML/CFT regimes continued to impose on controls on the IVTSs (Matthias, 2009).

Early Myths about IVTSs

Research has helped the FATF in breaking some of the myths related to the Informal Value Transfer Systems and establishing the real vulnerabilities that are problematic and pose a threat to the countries. Even though the hawala system has been present for centuries it is a myth that it is an outdated system. The informal value transfer systems, in fact, are very adaptable to the changes in the financial environment to maintain an efficient remittance system (FATF, 2013). These informal systems are often thought to be only remittance systems when in fact more often than not these systems are part of a larger organization and provide other financial assistance like currency exchange, short-term lending, safekeeping of funds (FATF, 2013). One of the most common misconceptions about IVTSs is that they are a paperless system (lack of records). Investigations into the mechanism of IVTSs have revealed that in reality these systems keep detailed records of transactions, and maintain ledgers, digital records and manual accounts (FATF, 2013). There is a common misconception that IVTS and Hawala like operations are always the cheaper options as compared to the formal system. This argument is not always true as the rates or fees associated with a transaction by this system often depends on the nature of the transaction. In cases where the funds need to be transferred to or from a high-risk region

or if the transaction is to or from a remote area, the commissions are not always competitive or cheap (FATF, 2013).

The Problematic Reputation of IVTSs

The concerns with IVTS and their operations have not changed much since the early findings by Passas (2003) and recent findings by the FATF (2013) and Georgiou (2017). They emphasize on the fact that IVTSs operate in the absence of a legal or judicial environment. What this means is that the regulations and the controls that apply to the formal financial sector do not apply to the informal value transfer systems (Georgiou, 2017). Passas (2003) claimed that IVTSs could be used to hide criminal activity under the layers of complex transactions and opaque mechanisms (Passas, 2003). The FATF (2013) report suggested that the IVTSs use various methods of settlements that are hard to track (FATF, 2013). A recent study on the prevalence of IVTS in Pakistan raised similar concerns. It was reported that the lack of supervision made the process of settlement across borders easy, which attracts organizations that want to launder money or transfer terrorist funds (Raza, Fayyaz, & Ijaz, 2017). Thus, considering the global viability of these services most countries see IVTSs as highly vulnerable to money laundering and financing of terrorism. This was seen in a survey conducted by FATF (2013), where 86% of the countries stated that IVTSs are a vulnerable sector, even though most of them could not explain the reason or the direct relationship between IVTS and criminal activity (FATF, 2013). The fact that the countries could not explain the direct relationship between IVTSs and criminal activity is problematic because there have been cases of IVTSs been misused.

Evidence of Misuse

None of the research conducted to date dismisses the potential role of IVTSs in the transfer of illicit/legitimate funds by terrorist organizations. There are cases where the IVTSs were misused for the financing of terrorism. In India, for example, an investigation into a series of bomb blasts in Mumbai (then Bombay) in 1993 revealed the use of hawala to buy explosives in the United Kingdom, Dubai and India (FINCEN, 2003). In 2008, Saifullah Anjum Ranjha, a Pakistani money remitter living in Washington, D.C was sentenced to 2 years in prison and was ordered to forfeit his assets for conspiring to launder money and for concealing terrorist financing (FATF, 2013). In 2011, Mohammad Younis pleaded guilty to operating an unlicensed money transfer system that was used to fund the attempted 2010 car bombing in New York (FATF, 2013). Recently research in Pakistan has suggested that the terrorists that occupy the Pak-Afghan border are suspected to be using IVTS and Hawala like operations to fund their activities against the Pakistan army and U.S Marines (Razza, Fyaz, & Ijaz, 2017).

Canadian Cases

The Royal Canadian Mounted Police (RCMP) investigates all the terrorist financing cases and activities in Canada. in *R v. Thambithurai* (2008), the RCMP's Integrated Security Enforcement Team (INSET) investigated Thambithurai who was allegedly collecting funds for the Liberation Tigers of Tamil Eelam (LTTE) - a listed terrorist organization in Canada. Thambithurai was arrested in Vancouver and various materials were found in his possession, including a donation form for LTTE. He pleaded guilty to some of the charges in 2010 and was sentenced to six months imprisonment (FATF, 2016). In 2014, a young 15-year-old boy got influenced by violence and became determined to travel abroad to join a terrorist group. His father upon suspicion reported the behavior to the police who later found that he had committed armed robbery to buy a ticket

to Syria. Apart from the armed robbery charges he also was convicted of ‘attempting to leave Canada to participate in the activities of terrorist groups’ for which he received 24 months in youth custody plus one-year probation (FATF, 2016). The reputation of IVTSs in the AML/CFT regimes suggests that the lack of understanding of IVTSs and their mechanisms has caused a ‘fear of the unknown’ in the regimes. Control and monitoring of IVTSs try to shed light on the dark side of the financial sector to bring more transparency to IVTS. As seen in the cases, proper investigation and intelligence partnerships with law enforcement agencies are key in tackling ML/TF organizations and persons. This takes us to an assessment of how these IVTSs fit into the global policy framework.

Chapter 5 - HOW ARE IVTSs MONITORED GLOBALLY?

Through the 1990's the international community started prioritizing the problem of financing of terrorism which is evident in the General Assembly resolutions that were adopted, primarily by the International Convention for Suppression of Financing of Terrorism in 1999 (Passas,2009). This convention provided a detailed definition regarding any person who is involved in the financing of terrorism. The convention further required State parties to take required steps, within their domestic legal principles, for the detention and freezing, seizure or forfeiture of any funds used or allocated for financing of terrorism (Dandurand, 2009). The convention further emphasized on the establishment of proper controls for the defined offences. (Dandurand, 2009). After the September 11(9/11) attacks the provisions of The Convention for the Suppression of the Financing of Terrorism gained more importance as the United States moved its efforts towards the 'war on terror' and sped-up its fight against the financing of terrorism. All the efforts that were at first Anti-money laundering soon expanded their scope to Combating terrorist financing (Passas, 2009). In the immediate aftermath of the 9/11 attacks, the resolution 1373 was adopted by the Security Council which imposed extensive counter-terrorism legal obligations on all states. Its obligations required every country to freeze the financial assets of persons found guilty of crimes related to terrorism and financing of terrorism. Further, the resolution imposes obligations on the states to establish domestic laws and regulations that reflect the seriousness of crimes related to terrorism (Dandurand, 2009). The Security Council, through this resolution, imposed obligations on all states to afford one another 'greatest measure of assistance' in investigations and prosecuting terrorist acts (Dandurand, 2009). The 'greatest measure of assistance' would translate into proper information sharing during investigations and

extraditing laws and relations between states. Further, in resolution 1373 (2001), the Council also created the Counter-Terrorism Committee. Later, the Security Council, through resolution 1535 (2004), established the Counter-Terrorism Committee Executive Directorate to support the work of the Committee. (Dandurand, 2009).

Passas (2009) states that the CFT laws grew in number and scope globally due to the efforts of the Financial Action Task Force (FATF). The Financial Action Task Force (FATF) is an inter-governmental body that was set up in 1989 to develop and promote policies related to global financial systems to protect them against money laundering (Passas, 2009). Later FATF expanded its policy measures to the financing of terrorism and the financing of proliferation of weapons of mass destruction (FATF, 2017). The FATF provided forty Recommendations in 1996 (and updated them in 2001, 2003, 2012 and 2017), which are universal guidelines for authorities in various countries to battle the financial crimes and financing of terrorism (FATF, 2017). Its updated recommendations (2012-2017) touch critical vulnerabilities in the global financial environment. The FATF emphasizes the need to criminalize the financing of terrorism and money laundering by defining the scope of offences and persons involved in these offences. The recommendations further state the need for freezing and confiscating of the assets of persons or organizations engaged in the financing of terrorist operations by implementing domestic policies (FATF, 2017). In case of IVTSs, the recommendations suggest the enforcement of licensing and registration policies to ensure that the IVTSs function under the supervision of authorities and should be subject to investigation and monitoring (FATF, 2017). An important recommendation that the FATF put forward is the concept of Customer Due Diligence (CDD). This recommendation is significant in the process of bringing transparency through reporting and verification of

customers, to financial institutions, especially to IVTSs that have been known to conceal customer identity (FATF, 17). The recommendations further emphasize the need to include vulnerable sectors like wire transfers, Non-Profit Organizations and charities, and Cash couriers that have been used in the past by terrorist organizations and criminals (FATF, 2017).

In 2013 the FATF in its 4th round of mutual evaluations, provided a document that formed the basis for undertaking assessments of States' technical compliance with the FATF recommendations, adopted in 2012 and updated in 2017, and for reviewing the level of effectiveness of a country's AML and CTF systems (FATF, 2017). These efforts of the FATF provided an essential Methodology toolkit for nations to not only comply with the FATF recommendations but to assess the efforts that they have been making to curb this global issue. The document suggests that there are four possible conclusions or levels of compliance that can be reached – compliant, largely compliant, partially compliant and non-compliant. A compliant rating would be awarded to a system that has no shortcomings, and largely compliant rating would be awarded to a system that has minor shortcomings. Whereas, a partially compliant system would have moderate shortcomings and a non-compliant system would have major shortcomings (FATF, 2017). The document defines effectiveness as "the extent to which the defined outcomes are achieved" (FATF, 2017, p.15). The document further explains that the effectiveness is not a check whether specific requirements are met, or that they include the recommendations in place. Instead, they are assessed on the basis of their achievement of the defined outcomes (FATF 2017)

The United States has development a legal regime, The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA

PATRIOT) Act, 2001, which provides AML/CFT laws. This Act amended the Bank Secrecy Act (BSA) to expand the scope of financial institutions to include IVTSs (Wheatley, 2005). This included record keeping and registration laws. The US Treasury Department's Financial Crimes Enforcement Network (FinCen) takes care of reporting and monitoring duties of the financial sector (Wheatley, 2005). The policies and regulations that are applicable in regions that are considered IVTSs hot spots are more important in the context of the global effort. The UAE has earned a reputation as a major hub for terrorist financing through IVTS due to its relaxed reporting requirements. As a result of pressure from the international community, post 9/11 the UAE set up domestic laws setting restrictions on its financial sector to increase reporting (Wheatley, 2005). These laws included the IVTS operations functioning in the region. To strengthen the AML/CFT regime in UAE, the US Customs Services opened its offices as a base for operation Green Quest that has been used by the US as an AML/CFT tool. Unfortunately, Wheatley (2005) states that these efforts did not bring any considerable success in stopping the financing of terrorism in the region as they faced difficulties in including all IVTS operations in the area (Wheatley, 2005). Pakistan is another country that is considered a hub for IVTS operations and financing of terrorism. In 2002, it established the Financial Intelligence Bureau in collaboration with foreign and domestic intelligence agencies to gather and analyze data on suspicious transactions through the financial channels (Wheatley, 2005). In 2004, the State Bank of Pakistan informed all Hawala operators to register as foreign exchange dealers (Raza, Fayaz, & Ijaz, 2017). In 2015, a National Action Plan was established to counter-terrorism and financing of terrorism. The measures in Pakistan have put a leash on the use of IVTSs. It was reported that the present total Pakistani remittance is at US\$ 18-20 billion per annum compared to US\$15

billion per annum in 2014 (Raza. Fayyaz and Ijaz, 2017). In India, IVTSs (mostly Hawala) have a significant historical presence. In 1998, INTERPOL reported that the money in the Indian hawala system is estimated to be around US\$ 680 billion (Wheatley, 2014). In 2003, India enacted the Prevention of Money Laundering Act, which placed obligations on hawala operators to maintain detailed records. According to Wheatley (2014), even though India has a historic association with hawala, it does not have any comprehensive reporting laws. Thus, suspicious activities can go unnoticed (Wheatley, 2014). The Mutual Evaluation Report (MER) by FATF in 2010 pointed out certain shortcomings in the Indian AML/CFT regime. It was observed that there were some technical deficiencies in the money laundering policies (FATF, 2010). But since that report, the Prevention of Money laundering Act in India was strengthened in 2013. Another Act related to the Indian financial sector, the Banking Laws Act (BLA) was amended in 2012. These changes resulted in a mostly compliant (with FATF recommendations) rating for India in the follow-up report in 2013 (FATF follow up, 2013).

How are they monitored in Canada?

Canada like many countries in the wake of the 11 September US attacks followed the FATF in including the financing of terrorism to their money laundering schemes to comply with the Security Council Resolutions (Roach, 2011). Canada's AML/CFT regime consists of organizations that work together to achieve a collective response to the threats posed by terrorists and criminals. The Canadian Security Intelligence Services (CSIS), the Communications Security Establishment Canada (CSEC), the Royal Canadian Mounted Police (RCMP) are the primary AML/CFT organizations in Canada (Government of Canada, 2013). The CSEC acquire foreign intelligence by the current intelligence priorities and assists the domestic law

enforcement agencies and security intelligence agencies. Certain federal organizations function in collaboration such as the Department of Foreign Affairs and International Trade (DFAIT), the Canadian Border Service Agency (CBSA), and the Financial Transactions and Reports Analysis Centre (FINTRAC). The collection of data and intelligence is the primary objective of these agencies to establish a stable AML/CFT regime by aiding the sharing of information domestically and internationally (Government of Canada, 2013). FinTRAC works in compliance with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) to develop a foundation of intelligence networks. Millions of financial transaction reports are sent to FINTRAC by the banks, credit unions and other financial institutions to assist the AML/CFT regime (FINTRAC, 2017). FINTRAC is responsible for the collection, analysis and disclosure of information to aid in the detection, prevention and deterrence of money laundering and the financing of terrorism in Canada and abroad (FINTRAC, 2017). In 2005-2006 FINTRAC made 34 case disclosures with the value of CAD 256 million related to threats to the security of Canada, which consisted of funds being wired to locations known to be terrorist holds. FINTRAC provides a significant amount of disclosures on terrorist financing to a variety of law enforcement agencies. FinTRAC sent 234 disclosures related to TF and other threats to the security of Canada in 2013-14, and 228 disclosures in 2014-15 (IMF, 2016). FINTRAC has increased its disclosures regarding terrorist financing to 161 for the first six months of 2015-2016, of which 82 were proactive disclosures (IMF, 2016). The analysis shows that charities and other non-profit organizations (NPOs) have figured in over one-third of FinTRAC disclosures related to suspected terrorist activity financing. The Financing Advisory Committee and the Charities Directorate of Canada Revenue Agency (CRA) work to negate threats from illicit financing and Charitable institutions

involved in terrorist financing (Government of Canada, 2013). The RCMP conducts extensive investigations of reports that link persons or organizations to money laundering or terrorist financing. Though there are numerous reports made to Fintrac there is a lack of information provided about the use of this data. Fintrac does not provide information about how this data is assessed by their staff.

The Canadian AML/CFT regime is not independent of the international AML/CFT regime; in fact, it tries to work with the international efforts by aiming for maximum compliance with the FATF recommendations. These efforts can be observed in Canada's openness to the FATF Mutual Evaluation Report (MER) that assessed the regime in 2008 and 2016. In 2008, there were some concerns raised by the FATF (2008) MER that suggested that the FinTRAC was not very effective due to the lack of staff engaged in the analysis of data (FATF, 2008). The Customer Due Diligence or Customer Identification measure in Canada were found to be insufficient and did not meet the standards of the FATF recommendations. There were not many provision to tackle the misuse of technology in ML/CF schemes and the non-face to face businesses were still at risk without proper policies (FATF, 2008). Overall, Canada was questioned by the U.N.'s Counter-Terrorism Committee about the eleven non-compliant ratings from the FATF MER (2008) (Roach, 2011). Canada's FATF MER report in 2016 showed clear signs of improvement in the AML/CFT efforts of Canada. The FATF MER (2016) highlighted certain key findings for Canada's AML/CFT regime. The report's findings provided that Canada was doing well in terms of bringing the legal framework in line with the standards set by the FATF recommendations since the last report in 2008 (FATF MER, 2016). In terms of the Immediate outcomes (mentioned earlier), Canada achieved substantial results in five IOs, moderate results in five IOs and low result in one IO. The assessors

were convinced that the Canadian authorities had a generally good level of understanding of Canada's AML/CTF risks and based their actions on dependable evidence and sound judgment (FATF, 2016). All high-risk areas in the Canadian context were covered by the efforts of the Canadian authorities except for legal counsels, legal firms and Quebec notaries which can be a vulnerable loophole in the system. The FATF recommendations were found to be a breach of attorney-client privilege by the supreme court of Canada in 2015 (FATF, 2016). Gerstein and Payette (2013) had stated that this might hinder the AML/CTF efforts of Canada and the authorities should ensure that these three actors should participate in the activities listed in the standards (Gerstein, I., & Hevieux-Payette, 2013). But despite being an issue in the FATF (2008) report, this issue was not addressed. German (2018) states that notaries come under the reporting laws of FinTRAC, but the absence of lawyers presents a significant gap in implementing police and law enforcement investigation strategies in British Columbia, Canada (German, 2018, p. 3). FinTRAC with the help of law enforcement agencies (LEA) can access the financial information required for investigation, but the process of procurement of such information is a lengthy one in Canada. Further, the investigative authorities are not allowed to request for additional information from the reporting entity to complement the investigation, which results in a limited analysis (FATF MER, 2016). Canada has done well to prioritize the pursuit of terrorist financing activities, and the financial institutions have implemented the terrorist financing-related targeted financial sanctions (TFS) adequately, but this is not true for the designated non-financial business and professionals (DNFBPs). Charities and NPOs, specifically, are only monitored on a risk basis. Another finding that could be a risk to the efforts is that the DNFBPs are not fully aware of their obligations to the AML/CTF efforts, especially by real estate agents

(FATF, 2016). German (2018) states that real estate is a high-risk sector in British Columbia, Canada as it is a very lucrative sector (German, 2018). As far as unregistered MSBs in British Columbia, German (2018) states that there are strict laws that are in place to sanction such IVTSs, but the authorities claimed that very few reports had been made in this regard (German, 2018). The efforts of Canadian authorities in freezing funds of designated individuals have been comprehensive but may lack in its effectiveness throughout the territories (FATF, 2016)

Public Safety Canada (2017) in its Public Report on Terrorist Threat to Canada reported that Canada's AML/CFT regime understood the importance of international collaborations to achieve effectiveness in policies (Public Safety Canada, 2017). Canada has formed multilateral alliances with Australia, New Zealand, the United Kingdom and the United States for intelligence and information sharing. Canada's Ministers of Public Safety and Emergency Preparedness, Justice and Immigration, Refugees and Citizenship meet with these counterparts on an annual basis to discuss issues of common interest (Public Safety Canada, 2017). The Counter-Terrorism Capacity Building Program (CTCBP) is another forum in which Canada participates and is a key part of Canada's international terrorism prevention responses. In June 2017, Canada renewed the Canadian Armed Forces' military mandate to contribute to the Global Coalition until March 2019 (Public Safety Canada, 2017). Following the Air India bombing, and considering the attackers' ties with India it is important that Canada maintains an intelligence-based relationship with India. Canada has shown mentorship by providing training to the Indian AML/CFT regime to enhance their skills with workshops and programs (FATF, 2010). Canada's AML/CFT regime, in 2009, signed a memorandum of understanding (MOU) with its Indian Counterparts to exchange critical financial intelligence (FATF, 2010). Those these measures highlight how Canada's

AML/CFT regime does not have many compliance issues with the FATF, it is evident that money laundering is the current focus of the current AML/CFT regime as German (2018) provided his recommendations. The issue with the present regimes is that is trying to pull in the unregistered informal sector into the formal sector by imposing illegalities to non-compliance. This does not help build partnerships with the IVTSs, instead many of them could move further underground and become harder to monitor. The reports that FINTRAC receives is not available to all the agencies for assessment due to privacy issues. Though FINTRAC's data is available to RCMP there are many other agencies that have no access to the information database of FINTRAC.

Conte (2011) on the 10th anniversary of the adoption of Resolution 1373 (2001) by the UN Security Council in a statement expressed concerns regarding the unintended consequences of the resolution (Conte, 2011). His assessment of the anti- terrorism regime's lack of success to curb the spread of terrorism is concerning. These concerns are echoed by researchers that question the heightened AML/CFT global efforts that have not resulted in any major wins against the financing of terrorism and the crackdown on IVTSs. This brings us to a question that does financial control and monitoring of IVTS curb financing of terrorism?

CHAPTER 6 - DOES CONTROLLING AND MONITORING OF IVTSs CURB FINANCING OF TERRORISM?

Many countries including Canada followed the United States and added terrorism financing to their money laundering regimes. This approach according to Roach (2011) frequently fail to understand the fundamental differences between money laundering and terrorist financing (Roach, 2011). Even though there are 'numerous potential points of intersection' between terrorist groups and money laundering organizations, terrorist organizations do not use these channels for 'money laundering' or 'washing dirty money' in the exact sense of the terms (Dandurand and Chin, 2004). There could be an effort to hide the source of the funds or even an attempt to conceal the reason for the transfer by terrorists via IVTSs. But applying regulations that are predominantly more effective on money laundering activities would not reap desired results. Neumann (2017), commenting on the problems with the war on terrorism financing, criticized the AML/CFT regime's for imposing policies that cost the private and public-sector billions of dollars (Neumann, 2017). This argument is not without merit as there are more terrorist organizations, with more money than ever recorded before. He further supports his point by reporting that in 2015, the Islamic State (ISIS) had a budget of almost US\$ 2 billion making it the world's richest terrorist group (Neumann, 2017). Relying on studies by King's College London Neumann (2017) mentions that this particular terrorist group does not depend on international funding in fact 90% of its funding is acquired internally from its occupied regions (Neumann, 2017). These regions are cut off from the monitoring strengths of the international CFT regime thus their effectiveness is negligible. Thus, the controlling and monitoring efforts that are applicable in the domestic AML/CFT regimes of countries may have no effects on these

terrorist organization. As mentioned before, Keene (2007) discussed the myths related to IVTS (Keene, 2007). The myths and perceptions of policymakers regarding IVTS have drawn attention towards these systems which have resulted in placing policies but the issue of cost-effectiveness of such policies has not been addressed by countries. It is ironic, that as established by many studies including US reports, there was speculation of misuse of IVTSs for the 9/11 attacks, but all the available evidence points towards the formal banking system and tools like wire transfer, credit cards and regulated remitters for transfer of funds (Passas report, 2003). Neumann (2017) further suggests that the extensive regulations and monitoring may deter the terrorist from using IVTSs, but there is no evidence that these efforts have seized a terrorist campaign (Neumann, 2017). Due to this, it is a possibility that the operators of IVTSs may move further underground and make it impossible to have any monitoring capacity over them. Coming to the cost of financing of terrorism, the attacks of 9/11 were estimated to cost the most (US\$ 400,000 to US\$500,000), but other deadly attacks have not been as costly. The 2004 Madrid attacks cost around US\$ 10,000 and the Cologne, Germany attacks in 2006 cost around US\$ 14,000 (Institute of Economics and Peace, 2017). The Air India Bombings were estimated to cost around US\$ 3000-US\$10,000 (Roach, 2011). As we analyze these costs, they make us question the basis of the establishment of extensive policies that strive to strangle the flow of terrorist funds which do not seem to be too large. It can be argued that the operational costs of terrorist organizations are high but as research suggests the current terrorist organizations are internally funded, and these policies do not reach their isolated regions. Neumann (2017) further argues that these policies have had more unintended consequences than the AML/CFT regimes would have anticipated as the costs to carry out such operations have a burden on countries and more often than not they

harm innocent people and businesses without proper evidence (Neumann, 2017). The US Department of State (2017) reported that the military efforts by way of air strikes had targeted 25 ISIS hot spots which have brought down the use of oil by ISIS to raise funds (US Department of State, 2017). This statement of the US Department of State does highlight the importance of military action in the case of isolated terrorist organization. These isolated terrorist organizations do have international ties with agents who move money for them (FATF, 2015). The financial controls and monitoring policies are ineffective on these agents, but these policies are essential as prevention strategies. Red-flagging of organizations and agents with ties with institutions that are run or under the control of such terrorist organizations can help create a trail of information that helps catch organizations involved in TF domestically. But the cost effectiveness of these efforts is still unknown, and countries could find it difficult to construct strategies that are most suitable to their needs. According to Matthias (2009), in combating and regulating IVTS or underground banking countries can take two strategies or models into consideration, risk model and the assimilation model (Matthias, 2009). The risk model is enforcement of prohibition laws on IVTS combined with intelligent, evidence-based investigation and prosecution policies whereas the assimilation model is based on including or recognizing IVTS as a form of financial service (making it part of the formal sector) (Matthias, 2009). These models can fit into the needs and policy structure of any country that wants to have an intelligent AML/CFT regime.

CHAPTER 7 - CONCLUSIONS AND RECOMMENDATIONS

The first conclusion from the above analysis is that the various AML/CFT regimes have apparently misread or exaggerated the relationship between the financing of terrorism and money laundering. Emphasizing on financial sanctions and monitoring of the IVTSs has not resulted in an overall decrease in financing of terrorism. In fact, some evidence suggests that terrorist organizations like ISIS grew many folds financially during the last few years. The misconceptions attached to IVTSs have further distracted the counter-terrorism agencies, and resources have been allocated to AML/CFT policies without cost-benefit assessments. Domestically such strategies could curb money laundering and criminal activities but have failed in thwarting any terrorist financing operations.

The second conclusion is that AML/CFT laws on the whole have not proven to be very effective in tackling the financing of terrorism. They are essentially preventive measures. Laws that place high demands on IVTSs only pressurize such services to go deeper underground as these laws try to pull all unregistered value transfer services towards the registered and monitored formal sector. The AML/CFT regimes do not consider consequences of these IVTSs moving further underground such as closure of innocent businesses, and the importance of IVTSs to immigrants sending honest money back to their homes. In order to mitigate the unintended consequences of these strategies, it would be important to devise an effective threat-assessment regime that could provide a clear picture of the current terrorist financing threats. The assessment of the threat will help countries choose from strategies that are appropriate to their needs. Countries like Canada need to focus only on key vulnerable sectors such as Designated Non-Financial Businesses and Professions (DNFBP) including the Legal profession which is bound

by privacy laws and does not come under the AML/CFT regime. There are other DNFBPs such as the real estate sector and Casinos that require attention of the AML/CFT regime in Canada.

The third conclusion from the analysis of the literature is that terrorist financing is not a huge financing issue as studies suggest that modern ML/TF organizations do not necessarily require huge amounts of funding to finance terrorist acts. Thus, looking at the problem of financing of terrorism from a money laundering prism may be problematic. The low costs of terrorist acts make it easy for terrorist organizations to transfer money across borders without difficulty. It is virtually impossible to detect such funds. The terrorist organizations adapt to various policies as there are many channels that can be used for the transfers of these small amounts. In more cases than not it is the formal financial sectors that are used to transfer such funds. Due to their ability to use legitimate financial services and institutions, there is little need for the terrorist organizations to launder money; thus, they easily use the formal financial services. The larger organizations such as ISIL generate funds through the resources in the regions they control and internally fund most of their activities. The functioning of these organizations highlights the need for gaining the trust of IVTSs to form partnerships and gather intelligence by monitoring persons that are dealing with these terrorist organizations. This also highlights the relevance of international partnerships with AML/CFT regimes that function in countries with high prevalence of IVTSs that are vulnerable to misuse. To mitigate the risk from such countries Canada should enhance its partnership with countries like India, Pakistan and UAE to work with their AML/CFT regimes and list and red flag criminal agencies and organizations. The studies suggest that the problems with Canada's information sharing is not just international but domestically FINTRAC fails to create a very comprehensive relationship with all agencies to share

important reported data. In fact, FINTRAC only shares information with agencies like the RCMP and the CSEC. This can be problematic in tackling the ML/TF issues in the country.

In the fight against financing of terrorism and its links to IVTSs, Matthias's (2009) risk model and assimilation model are key for countries to find a space where their AML/CFT regimes could exist (Matthias, 2009). The international recommendations and legislation—in particular of the Financial Action Task Force and the European Union—take the assimilation model as their starting point whereas the US has emphasized on the risk model (Matthias, 2009). An ideal system would be a balance between the two models taking key aspects of the FATF recommendations to enforce sanctions and regulations and incorporate the informal sector into the regime as they hold a critical position in different cultures. In Canada, the threat from terrorism is not as high as the United States and this should give Canada more scope to include the IVTSs in their financial sector by partnerships and not by legal obligations.

Another aspect of IVTSs that put them under stress of the AML/CFT regimes is their own noncompliance with Customer Due Diligence (CDD) requirements. The failure of IVTSs to provide detailed information of the beneficiaries and the transferors. It is important that the AML/CFT regime in Canada should work out strategies with the IVTSs to include them into the formal sector with CDD obligations to ensure effectiveness, but these obligations should be accompanied by proper training and trust building programs.

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