



## FINANCIAL INTELLIGENCE REPORT

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### Criminal Informal Value Transfer Systems (IVTS)

#### Issue

1. (U) Informal Value Transfer Systems (IVTS) (which are considered to be Money Services Businesses (MSBs) in Canada) such as *hawala* are one of the means by which transnational organized crime groups launder their criminal proceeds.<sup>1</sup> In many instances, these businesses are unwitting accomplices in the money laundering scheme; however, in some cases the business is complicit in the money laundering activity, and exists primarily to serve criminal clients. The purpose of this report is to describe how IVTS networks are used to launder criminal proceeds, as well as some of the indicators of this activity.

#### Criminal IVTS – Background and Definitions

2. (U) IVTS are also known as, for example, *hawala* (Middle East), *hundi* (India), *undiyal* (Sri Lanka), *fei qian* (China), and enable individuals to “send” money (or equivalent value) around the world. In its 2013 report, the Financial Action Task Force (FATF) referenced “*hawala* and other similar service providers” and defined them as “money transmitters, particularly with ties to specific geographic regions or ethnic communities, which arrange for transfer and receipt of funds or equivalent value and settle through trade, cash and net settlement over a long period of time.”<sup>2</sup>
3. (U) It should be noted that IVTS have existed for centuries, and are used by millions of people around the world, particularly in areas where banking services are unavailable and/or expensive. IVTS are an important support mechanism for the development of many economies, and may be the only mechanism to transmit funds in areas devastated by conflict and/or natural disaster.<sup>3</sup> IVTS are not illegal – in Canada, they are considered MSBs and covered under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. According to the FATF there are three categories of IVTS:
  - a. Pure traditional (i.e. legitimate);
  - b. Hybrid traditional (i.e. sometimes unwitting)
  - c. Criminal (i.e. complicit in money laundering activity).<sup>4</sup>

<sup>1</sup> For more information, see FINTRAC Financial Intelligence Report on Third Party Money Laundering, April 2015.

<sup>2</sup> Financial Action Task Force. “The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing.” October 2013. Page 9.

<sup>3</sup> International Monetary Fund. “Regulatory Framework for Hawala and Other Remittance Systems.” Monetary and Financial Systems Department, 2005.

<sup>4</sup> Financial Action Task Force. “The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing.” October 2013. Page 14.

PROTECTED B s.13(1)(a)  
s.15(1) I.A  
s.15(1) S.A  
s.16(1)(c)

Notwithstanding the FATF's categorization, it is likely that even legitimate IVTS may, at times, facilitate transactions involving illicit funds. Similarly, criminal IVTS may facilitate transactions involving completely licit funds.

4. (U) Criminal IVTS exist to facilitate the need for transnational organized crime groups to dispose of cash proceeds in one location, and make the equivalent value available in other parts of the world. Similar to traditional (i.e. legitimate) IVTS, criminal IVTS networks use cash pools and reciprocal settlements by servicing remittances for other IVTS groups. Criminal IVTS networks will cooperate with one another to complete transactions required in different markets, and possibly to minimize exposure to law enforcement investigation.<sup>5</sup> As third party money launderers, criminal IVTS networks are difficult to prosecute, given that it is difficult for law enforcement agencies to demonstrate that IVTS operators are aware that they are handling proceeds of crime, because IVTS operators are far removed from the criminal activities which generate illicit proceeds. IVTS are difficult to identify for a regulatory bodies such as FINTRAC, which relies on a voluntary registration system for MSBs (including IVTS) operating in Canada.
5. (U) As described by the FATF in its 2013 report, the placement of criminal proceeds via criminal IVTS involves up to four individuals:
  - a. The **Controller** or **Money Broker** acts as a professional money launderer, and is central to the operation. The Controller arranges for the collection of criminal proceeds, and the delivery of equivalent value to its destination. The Controller will have direct contact with multiple criminal organizations, in multiple countries and will keep records of the proceeds collected, controlled and disbursed. Normally, the Controller is responsible for the proceeds from the time they are collected, until the value is delivered, and may bear the cost of lost proceeds. The Controller may charge a fee based on a percentage of the funds to be laundered, or may derive a profit by manipulating currency exchange rates.<sup>6</sup>
  - b. The **Collector** is the Controller's trusted representative who, upon instructions from the Controller, collects criminal proceeds directly from criminal organizations. The Collector will contact criminals to make arrangements for the collection of proceeds.
  - c. The **Co-ordinator** is an intermediary who manages one or more aspects of the money laundering process for one or more Controller.
  - d. The **Transmitter** is an intermediary who receives and sends proceeds to the control of the Controller.

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<sup>5</sup> Ibid, page 29.

<sup>6</sup> Financial Action Task Force. "The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing." October 2013. Page 33.

**Page 14**

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s.15(1) I.A  
s.15(1) S.A  
s.16(1)(c)  
s.21(1)(a)

## Indicators of Criminal IVTS

10. (PA) FINTRAC is currently analyzing transactions [REDACTED] related to suspected complicit MSBs and criminal IVTS [REDACTED] some indicators have previously been described by the FATF and allied FIUs. While not exclusive to the issue of criminal IVTS, these indicators include, for example:

- a. Extensive use of “collective” accounts at financial institutions, which may be identified by financial institutions where many deposits of small amounts are made to the account of individuals, or where larger amounts are deposited regularly, followed by an electronic funds transfers (EFTs) to foreign accounts;
- b. Regular transfers of funds to/from international locations such as [REDACTED]
- c. The temporary use of an account, where funds are transferred in and out rapidly;
- d. Frequent transfers of funds to businesses which are inconsistent with the stated business activities of the ordering client, and/or to foreign countries for which the ordering client does not have a business connection;
- e. Business accounts used to receive and disburse funds, but which do not exhibit any normal operating costs (e.g. invoices, payroll etc.);
- f. Frequent deposits of third party checks and money orders into business or personal accounts;
- g. Frequent deposits by multiple individuals into one bank account, followed by international EFTs and/or international ATM withdrawals;
- h. [REDACTED]

11. [REDACTED]

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<sup>13</sup> Ibid, pages 57-58.

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### Identifying Criminal IVTS – Importance of Outreach and Third Party Reporting

13. (U) The actions undertaken by international allies to address criminal IVTS highlight the importance of outreach to the MSB sector (including IVTS operators) and third party reporting from the banking sector. AUSTRAC, for example, uses third party reporting on MSBs from financial institutions and systematically compares this with reporting received directly from MSBs, in an effort to identify discrepancies.<sup>17</sup> In the United States, FinCEN has adopted a strategy to identify unregistered MSBs through an analysis of Suspicious Activity Report (SAR) data by regularly searching key terms such as “unlicensed,” “unregistered,” and “illegal” in relation to reports involving suspected MSBs; once identified, and following de-confliction with law enforcement to identify potential ongoing investigations, the entity is contacted to learn more about its business and determine whether it must be registered as an MSB. If yes, assistance is provided to ensure its registration; depending on the results of this outreach exercise, the MSB may be referred for a compliance examination, or for possible law enforcement action.
14. (U) The United Kingdom’s Project QUAVAR, focuses on communicating commonly observed money laundering techniques using IVTS to the MSB sector, banks and other financial institutions to improve their understanding of the risks, and how to best manage them. Simultaneously, the NCA has engaged in training on how best to approach prosecutions of criminal IVTS. In response to this outreach, the UK reports that a number of MSBs have changed their practices, refusing to undertake the types of transactions undertaken in criminal IVTS. Subsequent actions by the UK banking sector have also disrupted the activities of criminal IVTS: these actions include closing high-risk bank accounts and refusing to process third party payments.<sup>18</sup>
15. (PB) In recognition of the role that criminal IVTS and suspected complicit MSBs are believed to play in laundering the proceeds of transnational organized crime groups, FINTRAC hosted a second Major Reporters Forum in the Fall of 2015. Attended by the eight largest financial institutions in Canada, the forum discussed suspected complicit MSBs with the goal of providing guidance and indicators to


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<sup>16</sup> International Monetary Fund. “Regulatory Frameworks for Hawala and Other Remittance Systems. Monetary and Financial Systems Department, 2005. Page 8.

<sup>17</sup> Financial Action Task Force. “The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing.” October 2013. Pages 58-60.

<sup>18</sup> Ibid, page 63.

enhance suspicious transaction reports (STRs). FINTRAC will subsequently monitor and analyze the incoming reports to identify suspected complicit MSBs and criminal IVTS, to better understand how they operate, and where appropriate, to disclose relevant information to law enforcement agencies.




### **Conclusion and Next Steps**

16. (PA) Identifying unregistered MSBs including IVTS, and suspected complicit MSBs, is a challenge which FINTRAC can address by enhancing the reporting the Centre receives from financial institutions. Such reports can be used as intelligence to enhance FINTRAC's understanding of the scale and scope of the issue, including related money laundering methods and techniques and to inform activities. In some cases the reports can also be disclosed to relevant authorities in support of law enforcement investigations. However, once suspected complicit MSBs and/or criminal IVTS are identified, disrupting, eliminating and/or preventing this criminal activity will likely require initiatives and actions which are beyond FINTRAC's mandate.

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