

NEWSLETTER

HOSSPs

HAWALAS & OTHER SIMILAR SERVICE PROVIDERS

HOSSPs can be defined 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.”

HOSSPs are a **subset** of money or value transfer services (MVTs).

Key Attributes of HOSSPs

HOSSPs generally:

- are cash-in and cash-out businesses.
- operate in areas with high percentages of expatriate workers.
- offer legitimate financial services to migrants sending remittances. Notably, however, they can also be used (or abused) for illegitimate purposes to move illicit money across borders.
- belong to networks of similar operators in other countries.
- communicate only limited information on the customer and beneficiary as far as individual transactions are concerned.

Financial Services provided by HOSSPs

- Money transfer and payout
- Currency Exchange
- Mobile money transfer
- Short term lending
- Safe keeping of funds
- Gold dealing

Who is a Hawaladar?

A person who **operates** an MVTs business which arranges for transfer and receipt of funds or equivalent value outside of the formal financial system.

Types of HOSSPs

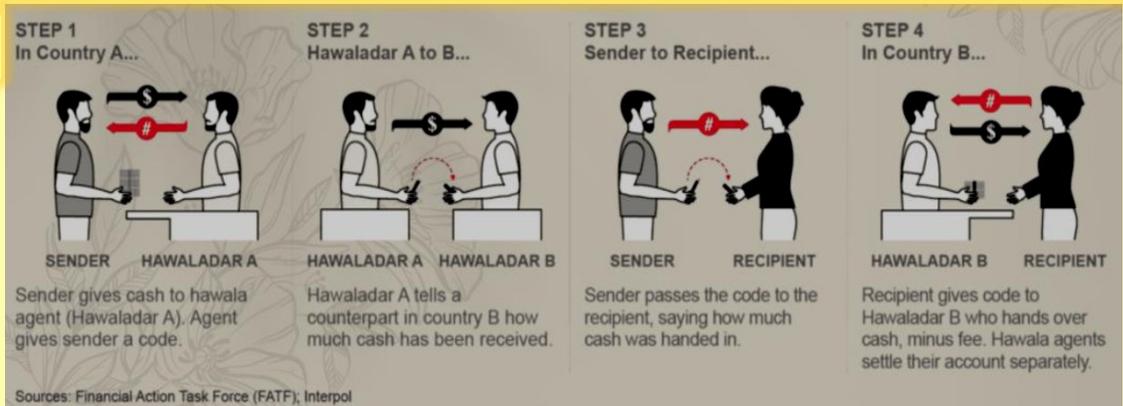
There are three (3) major types of HOSSPs as categorized by legitimate and illicit use:

Pure Traditional Hawala - Centuries-old, trust-based systems primarily used for **legitimate trade finance and low-value personal remittances**, especially by migrant workers. These often operate **outside formal regulation**, but when properly supervised, may present **lower ML/TF/PF risk** due to low transaction values.

Hybrid Traditional Hawala - Providers offering **legitimate services** that may also be **misused for illicit purposes**, such as tax evasion, sanctions circumvention, or currency control violations. These are not established as criminal networks but operate in areas where the demand for remittances is not met and may interact with other HOSSPs.

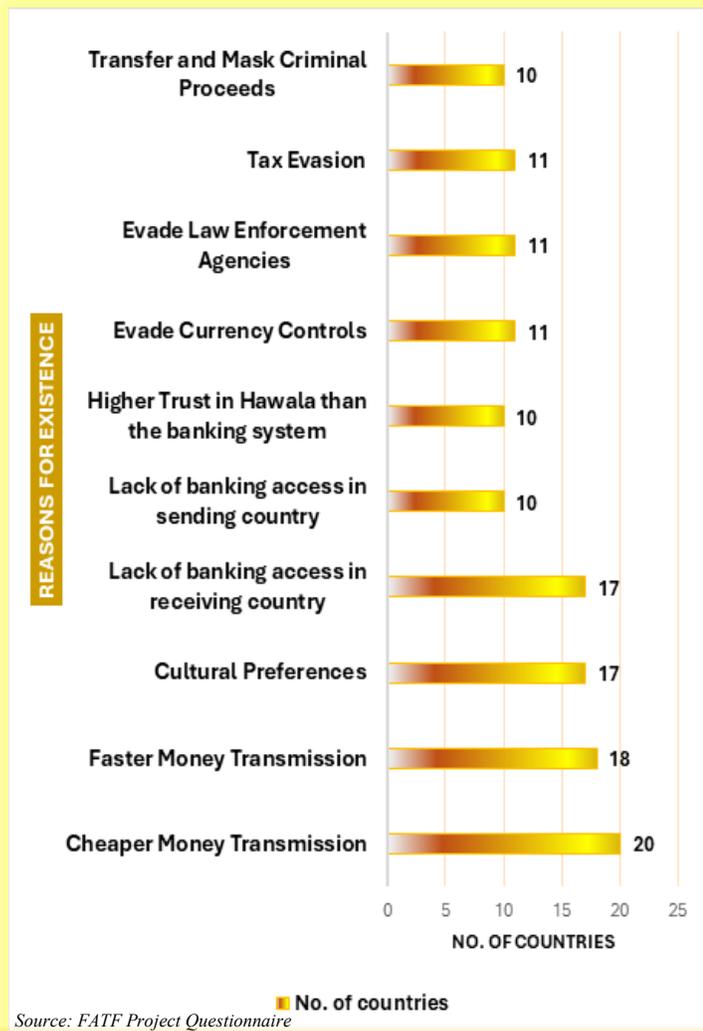
Criminal Hawala - Systems **deliberately established or controlled by criminals** to move illicit funds. These are characterized by **high-value transactions** and links to organized crime, corruption, tax fraud and terrorist/proliferation financing, presenting a **high ML/TF/PF risk**.

Hawala Transaction System



Reasons for the Existence of HOSSPs

FATF completed a survey among its member countries. The graph below presents the responses from 22 FATF member countries regarding the reasons for the existence of HOSSPs.



ML & TF Vulnerabilities of HOSSPs

- **Weak or limited supervision**, including insufficient regulatory resources, reduces effective oversight of HOSSPs.
- **Settlement through cash or value outside the banking system**, often across multiple jurisdictions, makes transaction tracing difficult.
- **Limited transparency and minimal paper trails**, which enable the evasion of customer due diligence and law enforcement scrutiny.
- **Commingling of licit and illicit funds** that obscures the origin and destination of criminal proceeds.
- **Use of net settlement or cover payments**, which masks the individual transactions and hinders auditability.
- **Limited visibility of HOSSP networks**, as full operations are often not captured within national registers.

Use of Criminal HOSSPs to evade Sanctions

Criminal HOSSPs offer an alternative to banks and other regulated financial institutions that will not process transactions on behalf of sanctioned entities and are used to evade sanctions by facilitating fund transfers to and from sanctioned jurisdictions outside regulated financial institutions. HOSSPs mask the identity of the true originator through techniques such as **cuckoo smurfing**.

Scan the QR Code and take the Quiz!



Case Example: Terrorist Abuse of HOSSPs

Times Square Bomber Case—On August 18, 2011, Mohammad Younis pled guilty in Manhattan Federal Court to operating an **unlicensed money transfer business** between the United States and Pakistan. One of the money transfers was used to fund the attempted car bombing in New York City's Times Square on 19 May 2010 by **Faisal Shahzad** who is serving a life sentence in federal prison. From January to May 2010, Younis provided money transmitting services to individuals in the New York City area by assisting in the operation of a hawala. On April 10, 2010, Younis engaged in two separate hawala transactions with customers who travelled from Connecticut and New Jersey to meet with him in Long Island. In each of the transactions, Younis provided thousands of dollars in cash to the individuals at the direction of a co-conspirator in Pakistan, but **without knowledge** of how the customers were planning to use the funds. At **no** time did Younis have the licence to operate a money transmitting business from either state or federal authorities. One of the individuals to whom Younis provided money was **Shahzad**, who, on June 21, 2010, pled guilty to a ten-count indictment charging him with crimes relating to his attempt **to detonate a car bomb in Times Square** on May 1, 2010. During the course of his plea allocution, Shahzad acknowledged receiving a cash payment in April 2010 in the United States to **fund** his preparations for the attempted bombing. According to Shahzad, the April cash payment was arranged in Pakistan by associates of the **Tehrik-e-Taliban, the militant extremist group based in Pakistan that trained him to make and use explosive devices**. On September 15, 2010, Younis was arrested by the FBI and other agents of the New York Joint Terrorism Task Force. Younis, 45, of Long Island, New York, pled guilty to one count of conducting an unlicensed money transmitting business.

Source: *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing (FATF)*

Reference

Financial Action Task Force (FATF). (2013). *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*. Retrieved from <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Role-of-hawala-and-similar-in-ml-tf.pdf>