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Timothy J. Smith

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IDENTIFICATION REQUIREMENTS AND POLICY IN ALTERNATIVE REMITTANCE: A MEASURE OF LEGISLATIVE ADHERENCE

A dissertation submitted in partial fulfilment of the requirements for
the degree of a

Bachelor of Science (Honours)

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Submission: August 2012.

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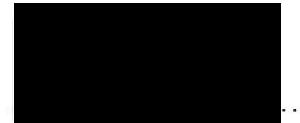
Abstract

Money laundering is a persistent threat to the economic viability of every nation. However the intent behind this behaviour does not always converge with the criminality of the act. A study of 395 international university students in Australia demonstrated a prominent cultural and regional norm in South Asia to use untraceable ‘informal’ remittance systems. Under Australian legislation, the use of a non-compliant alternative or informal value transfer system (IVTS) is an act that predicates the laundering of money regardless of intent. Yet in line with a clear cultural proclivity and trust in money transfer businesses, it is evident that many ordinary people still use these systems everyday alongside criminals and terrorists. The data in this study highlights a trend of willingness in remittance staff to accept student identification as valid identification for an international money transfer. The international anti-money laundering regime is a broad-scope, top-down system, which recommends a standard format of anti-money laundering and counter-terrorism financing (AML/CTF) regulation for all at-risk sectors of a national economy. However, the abuse of globally recognised monetary transfer systems is symptomatic of the flaws in this broad approach. Australia’s Financial Intelligence Unit AUSTRAC has recognised the need for less restrictive regulation of alternative remittance business. Despite this fact, the regulation of the Australian alternative remittance sector has failed to account for the environmental, cultural, and informal heritage impact factors in this process, which has reduced the efficacy of Australia’s AML/CTF programme. A second data set suggests that regulatory inadequacies extend beyond the border, to alternative and informal systems which regularly send untraceable money to and from Australia uninhibited. The findings of this research conclude that there are eight barriers which inhibit AML/CTF compliance in alternative remittance businesses. These barriers range from cultural, environmental, and trust based networks, to commercial and regulatory opportunism.

I certify that this thesis does not, to the best of my knowledge and belief:

- incorporate without acknowledgment any material previously submitted for a degree or diploma in any institution of higher education;
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Signed



...

Date August, 2012

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CHAPTER ONE: INTRODUCTION

The regulatory nature of society and the reality of ruling decree is a direct product of experience, and for most people a desire to create order out of chaos. Through this direction a level of order has been reached by implementing systems of good governance. Despite this, the control over free trade is only limited. Legitimate trade carries with it the burden of illegal and poorly regulated transactions. This damage manifests in every nation to varying degrees. Some of this harm is the product of the sale of illicit substances and weapons, human trafficking, sex slavery, corruption, and violent conflict (APG, 2011; Moore, 2001; Sullivan & Smith, 2012). Pervasive illegal activities embody the dark side of the global economy, which together earn approximately US\$870 billion annually (UNDOC, 2012). The sinister side of the international economy is indicative of an ongoing need for collaborative thinking and cross-cultural problem solving to reduce or, if possible, remove the opportunity to exploit economic systems. This work provides a partial view of the key issues within one area of the global economy, Alternative Remittance Systems (ARS).

The effort to combat money laundering internationally is in part a cooperative endeavour to establish good governance. According to the United Nations (2012), a standard of governance is judged on the transparency of its institutions. Good governance is not a specific set of goals, instead it is any system of government that promotes "...equity, participation, pluralism, transparency, accountability and the rule of law, in a manner that is effective, efficient and enduring" (*ibid*). Typical characteristics of poor governance are a lack of effectiveness, illogical management, tyranny, and a lack of accountability (Moore, 2001). Systems of governance can be poor despite a nation's attempt to improve transparency. Extreme poverty is linked with poor human resources management infrastructure and underfunded public institutions (Sachs & MacArthur, 2005). However, cases of poor governance exist regardless of geography. In the context of anti-money laundering (AML), the improvement of governance directly impacts the efficiency and effectiveness of legislative regulatory action (Smith, 2011).

Prior to the global acceptance of robust regulatory governance, trade occurred as a response to demand regardless of local or regional law. The history of trans-oceanic trade is instructive. In the late 1600's transatlantic slave trading was a key source of income for pirates and the English East India Trading Company (EITC) (Platt, 1969 p.549). During this period unlicensed colonial slavers (i.e. pirates) purchased Madagascan slaves and sold them at neutral ports without royal consent, (at the time) held exclusively by the EITC (*ibid*). This example highlights two key features that can still be identified from a contemporary perspective. Firstly the tendency for the trade market to meet demand regardless of the harm to society, and secondly the propensity for traders to seek out and exploit weaknesses in economic regulatory systems. Today these traits have manifested the many shadowy facets of the world market which are the life blood of organised criminals and terrorists (Cook & Smith, 2011; UNDOC, 2012; Findlay, 2008; Ridley, 2008; Irwin, Choo, & Liu, 2012).

Informal Value Transfer Systems (IVTS) are a product of innovation and adaptation. These systems have been the primary means of remittance over long distances for centuries (Passas, 1999; Razavy, 2005). The most widely utilised

systems are ‘Hundi’, (from the Sanskrit meaning ‘to collect’), and ‘Hawala’ (from the Arabic which translates as ‘transform or change, or trust’). Others include the Chinese ‘Flying Money’ and Colombian ‘Black Market Peso’ systems (Passas, 1999; Perkel, 2004). After September 11 2001, the Hawala process became infamous after it was identified as one of the systems used to fund the attacks on the World Trade Centres (NCTAUS, 2004). Adding further to the notoriety of the Arabic system, the US Government had the Somali al-Barakaat IVTS shut down in the aftermath of the attacks (Passas, 2006; Cook & Smith, 2010). The reputation associated with Hawala labelling it a system that directly funds terrorism has masked the reality of its use. While Hawala and other IVTS have been used for illegitimate purposes, the majority of transfers made are legally sourced and have a legitimate receiver (Cook & Smith, 2011 a; Hammond, 2011; Razavy, 2005).

Figure 1. Common Terms: Informal Transfer Systems

Remittance and Value Transfer Terms	Descriptive Notes
Alternative Remittance Service (ARS)	As cited by the Financial Action Task Force. Any form of ‘remittance system’ that is an ‘alternative’ to formal systems (FATF, 2005).
Informal Funds Transfer (IFT)	International Monetary Fund IMF/World Bank (2003; Razavy, 2005). Used to describe any ‘Hawala’ style transfer that is likely not illegal (Passas, 2003; Passas, 2006).
Informal Value Transfer System (IVTS)	Widely cited academic term. Any alternative transfer system dealing in the transfer of ‘value’ or ‘funds’ (Passas, 1999; Irwin et al., 2012).
Underground or Parallel Banking	Negative terms based on the traditional, anonymous, and record free operation of ‘Hawala’ like systems. Implying they are shady criminal businesses (Razavy, 2005; Borgers, 2009).
Informal Value Transfer Mechanism/Method (IFTM)	Used to describe processes by which value is transferred, which are often illegal (Passas, 2003; Passas, 2006; Rees, 2010)

Figure one displays five terms used to describe transfer systems. Two of the three most commonly cited terms have been also been adopted by prominent international organisations, ARS by the FATF (FATF-GAFI, 2005), and Informal Funds Transfer by the IMF and World Bank (2003). While IVTS is widely cited in the literature there is some debate as to which of the terms are most accurate to describe the many faces of informal money transfer systems (Bunt, 2008; Passas, 2006; Perkel, 2004; Rees, 2011). The use of the terms ‘underground’ and ‘parallel banking’, often used together, are pejorative terms and appear to be a product of the notoriety associated with the aftermath of the September 11 World Trade Centre attacks (Cook & Smith, 2010; Razavy, 2005; Borgers, 2009). Nikos Passas (1999; 2003; 2006), introduces the term Informal Value Transfer Mechanism as a descriptor

for labelling mechanisms of value transfer. He also states that should an Informal Value Transfer Mechanism be found it will likely involve criminal activity, due to the changing nature of the source of value from sender to receiver. Passas also states that it is unlikely an Informal Funds Transfer (IFT) would involve any illicit actions as part of its normal process (*ibid*). The general definition of an IFT does not exclude value transfers (Bank & World, 2003; Razavy, 2005).

There is no consensus on a definitive title for the various facets of remittance/value transfer methods. However for the purpose of this research, the term Alternative Remittance System, or ARS, will be used to describe a money or value transfer service in the broadest sense (FATF-GAFI, 2010). The FATF (*ibid*), states that the definition of a money or value transfer service is as follows;

A money or value transfer service refers to a financial service that accepts cash, cheques, other monetary instruments or other 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 a communication, message, 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. (p.13)

The above definition was outlined in the IXth Special Recommendations report, published by the FATF, under Special Recommendation VI Alternative Remittance Service (FATF-GAFI, 2010). This term suits this research project because it is applicable to all forms of informal money transfer. Under the FATF recommendation an ARS business may be run legitimately as long as it is licensed or registered to comply with all relevant recommendations, and is subject to sanctions if it fails to comply (FATF-GAFI, 2010 p.13-14).

Based on FATF guidelines, it is clear that Alternative Remittance Systems should retain their rightful place in the global economy and Australia. However the identification of multiple non-compliant remittance businesses in this research warrants deeper analysis to identify the extent of the threat to Australia's national security. Therefore a purpose of this thesis is to identify and describe the key issues that embody the weak points in international and Australian AML/CTF arrangements, and draw on and discuss data that highlight low levels of legislative adherence in certain ARS agencies. This thesis interrogates data collected from ARS service providers in Australia.

1.1 BACKGROUND OF THE STUDY

This study's focus on adherence is a result of a widespread trend of exploitation in alternative remittance systems. The informal nature of alternative remittance agencies has been exploited repeatedly to launder money (Kochan, 2005 p.228; Rees, 2010 p.51-58). Despite the number of international reports supporting this fact, the Australian Transaction and Records Analysis Centre (AUSTRAC) have stated that their main focus in this context is Western Union and Australia Post because they conduct the majority of relevant transactions (Rees, 2010 p.58). Data collected from fifty remittance businesses in Australia shows that the efficacy of regulation in the ARS sector needs re-evaluation, with scheduled re-assessment.

It is estimated that hundreds of billions in funds are laundered every year through systems that fail to keep appropriate records of their transactions (Buencamino & Gorbunov, 2002; Rees, 2010). A system that transfers value in an informal manner is also known as an Informal Value Transfer System (Napoleoni, 2004; Passas, 1999; 2003; 2006). These systems were developed in order to allow safe movement of wealth through high risk areas. Another was to enable a shorter period of transfer time between provinces, allowing travellers to access funds at their destination (*ibid*). The modern financial spectrum of systems that are exploited to launder money exist in three forms; formal, alternative, and informal, with the latter two systems at greatest risk of abuse. The formal sector includes many varieties of financially vectored businesses which include banks, insurance companies, and investment firms (Brown, 2009; Reuter & Truman, 2004). These businesses have the strictest regulatory control imposed upon them because they move the most significant amount of funds. Businesses in the formal financial sector are also more suited to strict regulatory control as a result of the formal nature of their everyday operation (Brown, 2009).

The global ubiquity of alternative remittance systems is linked to a number of factors, primarily stemming from a heavy reliance on informal value transfer systems in developing countries. Nations in Africa, Asia, and throughout the Middle East, rely almost completely on ‘informal’ or, in a Western context, ‘alternative’ systems of remittance (Passas, 1999). These value transfer systems used by developing countries, (such as Hawala and Hundi), have been operating for over 100 years prior to the existence of the first formal banking systems (Buencamino & Gorbunov, 2002; Passas, 2003). Moreover these systems are trusted over and above formal systems because developing countries are unstable, prone to conflict, and usually rife with corruption (Cook & Smith, 2011 a; Maimbo, 2003 p.37; Rees, 2010 p.15). IVTS and ARS systems allow developing, conflict ridden, and economically unstable countries to gain access to much needed funds when formal systems have failed (Maimbo, 2003; Maimbo & Passas, 2005; Rees, 2010; Razavy 2005).

People in developing countries are more distrustful of Banks than people in developed nations. Citizens in South Asia, South-East Asia, and the Middle East are culturally and pragmatically more aligned with regional and local money agents than with name-brand financial institutions such as transnational banking corporations. Instead the people of Malaysia, Indonesia, India, Pakistan, Afghanistan, and Africa are more likely to put faith in their local informal money agent. The strength and acceptance of this confidence and trust is in spite of the poor record keeping and lack of shop front or branding intrinsic to ARS (Maimbo, 2003; Razavy, 2005; Cook & Smith, 2011 a). Therefore to compare the economic regulatory power of a transnational corporate bank with its counterpart in the developed world, is to at least partly acknowledge a blind assumption of trust based on brand and marketing. Actions of this kind contradict the fundamental cultural norm of familial reliance on local, regional and well-known money traders. Informal money agents carry significant stature in developing regions, and should be viewed in this light (Bowers, 2009; Cook & Smith, 2011). Apart from the culture, tradition, and familial trust associated with ARS agencies, informal money transfers provide an inexpensive and anonymous service unavailable through any formal financial system (Masciandaro et al., 2007 p.198-199).

There are familial and cultural reasons behind the popularity of ARS globally. Huntington (1997) states that as civilisations grow, the populace of every country will spread to the point where culture, traditions, and social norms will clash and result in conflict. This hypothesis is reflected in the globalisation of economies. Migrants from less developed nations seek the prosperity and stability of other countries. As they repatriate money to family members in other countries, a significant transfer of funds takes place into regions which are often unstable and have low levels of economic security. The informal nature of traditional ARS clashes with the highly formalised financial systems embedded in first world economies (Huntington, 1997; Bunt, 2008; Hammond, 2011). These formalised systems ensure a steady flow of revenue back into each economy, in turn funding public sector maintenance and the expansion of health systems, public roads and transport (Huntington, 1997). Huntington's 'Clash' theory highlights the cultural and legal difficulties associated with extended population growth and expansion. In the context of this research these issues may amplify the cost of effective regulation, and likely increase the risk of money laundering and terrorist financing through ARS as ethnic populations increase.

After September 11 2001, many significant improvements within international economic systems were made. This was largely due to the international Anti Money Laundering (AML) community headed by the Financial Action Task Force (FATF-GAFI, 2012 b; Reuter & Truman, 2004 p.81-85). However with an ever growing list of money laundering incidents linked to the exploitation of alternative and informal systems, it is clear that more needs to be done to prevent money laundering and the financing of terrorism (Bunt, 2008, Kochan, 2005 p.212-235, Rees, 2010 p.50-83).

A key barrier for law enforcement attempting to crack down on criminal organisations and terrorist networks is a lack of cross-jurisdictional consistency in AML/CTF legislation (Ridley, 2008; Levi & Reuter, 2006). The PATRIOT Act, introduced in October 2001, is the pioneer of a wide-reaching and culturally-unsettling trend in the global geopolitical context of AML/CTF legislation. According to Reuter and Truman (2004 p.45-77), the Act is not hindered by legal inconsistencies across international borders. Specifically the act allows the US to enter other countries and forcibly extradite, then prosecute anyone who is reasonably suspected of committing an act that predicates or facilitates money laundering. The Patriot Act is the most recognised AML/CTF legislation in the world. The Act allows federal authorities to disregard state sovereignty in order to enforce domestic United States law (*ibid*).

Money laundering is also closely associated with tax evasion, the punishment for which is also inhibited by an inability for law enforcement to cross international borders (Levi & Reuter, 2006; Irwin, Choo, & Liu, 2004). The PATRIOT Act has also been designed to empower the US government to crack down on international tax evasion. This action was impossible under previous anti-money laundering legislation. The global regulatory thinking here is for the US and other sovereign nations to co-operate in an effort to improve the resilience of tax law internationally (Reuter & Truman, 2004 p.66). Used to its fullest extent, the PATRIOT Act can impact on economic security and stability greater than any other affirmative action on breaches in tax law.

Within the Australian context, AML/CTF legislation is focussed on the protection of Australian citizens against terrorism (AUSTRAC, 2007; Australia, 2011). Whilst there are many other issues surrounding the global effort to combat money

laundering, the Australian anti-money laundering regulations indicate the value of examining global remittance issues within the Australian financial sector. Australian anti-money laundering regulatory administration is carried out by the Australian Transaction Reports and Analysis Centre (AUSTRAC), Australia's primary financial intelligence unit (FIU). This transactional oversight is carried out under the AML/CTF Act of 2006 (AUSTRAC, 2007; Australia, 2012). AUSTRAC is empowered to investigate any suspected breaches of Australian law with regard to the AML/CTF Act, with the Australian Federal Police (AFP) as the primary law enforcement body (AUSTRAC, 2010).

After the enactment of the AML/CTF Act in 2006, AUSTRAC introduced a 'Know Your Customer' (KYC) policy in order to combat the threat of money laundering and terrorist financing. The guideline is applicable to all designated service providers entitled Regulated Entities in Australia. Know Your Customer is a policy framework designed to provide a 'watching brief' over individual customers by examining the means and capabilities of each remitting customer on the basis of first hand and 'at face value' information. The application of KYC policy is designed to reduce the risk of money laundering and terror financing by ensuring that Regulated Entities actively look for, and report, all suspicious transactions. In addition the Financial Transaction Reports Act of 1988 legislates the mandatory reporting of significant cash transfers. This requires a higher level of identification from customers sending more than AUD\$10,000. The Act also includes requisite reporting requirements for wire transfers (IFTI's), and suspicious transaction reports (SUTR's) (AUSTRAC, 2007; Australia, 2011).

In Australia alternative remittance agencies have been deemed as high risk targets for exploitation (AUSTRAC, 2011 g). However designated remittance service providers are still only required to sight one form of primary photo identification for transfers below AUD \$10,000 (AUSTRAC, 2007 b). Primary photo identification means a government issued license, permit, or passport (National, Commonwealth, Foreign, or U.N). Including state, territory, or foreign government issued proof of age cards that have a photo and signature of its owner (*ibid*). This definition does not include student identification cards regardless of any similarities held with primary photo identification. For the purpose of this research the term 'government issued identification' will refer to 'primary photo identification' as defined under the AML/CTF Act 2006 (Government, 2007).

1.2 SIGNIFICANCE OF THE STUDY

This research is significant because it addresses the issue of whether the internationally recommended approach to regulating alternative remittance industries is a valid one. Furthermore this research may inform the need for AUSTRAC to alter its approach to regulation in the ARS sector by;

- a) Revisiting the structure of remittance regulation.
- b) Addressing the lack of training and educational resources available to non-finance based Regulated Entities.
- c) Address the lack of representation by a Peak Body in Australia's ARS industry.
- d) Recognising the need to treat non-core remittance businesses differently to those in which finance is the core function.

If these issues are not addressed then the persistence of high risk unregulated remittance activity will continue to rise, along with the trend of criminal exploitation in Australia's ARS sector.

This thesis is also significant for individuals, especially from ethnic communities, who regularly make informal remittance through at-risk (i.e. non-compliant) ARS agencies. This holds greater significance in this context because these people may be performing an every-day remittance activity which puts them at risk of prosecution, detention, or being marked as a red flag linked to illegal or unethical financial acts.

The study of informal transfer systems holds international significance because it provides an understanding of regulatory issues pertaining to the prevalence of alternative remittance sectors globally. This study highlights a paucity of published research which validates the effectiveness of Australia's AML/CTF regulation of the ARS sector, which is derived from international recommendations on anti-money laundering. This study uses a small sample to gauge the state of legislative adherence in alternative remittance businesses which highlights the need for further research in this area. By measuring regulatory discretion in alternative remittance, this study has put Australia's AML/CTF authorities in an informed position so as to meet challenges facing the international community in this area.

This study is highly significant because it has helped identify businesses and individuals who launder money. The research throws up new recommendations that reduce legislative breaches under the AML/CTF Act of 2006 (AUSTRAC, 2007; Australia, 2012). Elements of the business community that have engaged specifically in exploiting ARS have been further exposed. This study simultaneously underlines the progress of AML/CTF regulations, and the capacity of measures intended to deal with incidents of money laundering in Australia. This research is also significant because it can be applied against domestic efforts to combat AML/CTF in other countries such as Indonesia, Malaysia, the US, and India.

1.3 PURPOSE OF THE STUDY

Australia's AML/CTF legislation does not provide for regular public review of its effectiveness on any level, nor does it allow for progression in terms of threat analysis or any significant community input. There is however, peer review and formal review through the FATF, however these reviews are carried out at very extended intervals. The first and last mutual evaluation of Australia's AML/CTF regime was in 2005 and lacked community input (FATF-GAFI, 2005 a; 2005 b). Without timely review and a 'peoples' perspective on the efficacy of legislative application across financial sectors, remittance legislation is subject to continued regulatory defiance by ordinary citizens. Whilst it is important that remittance agents comply with their regulatory obligations, it is also important that ARS patrons receive acknowledgement of transnational remittance diversity. Overall the anti-money laundering effort in Australia does not appear to support legislative adherence in ARS agents because there is an issue of scale. Large value transactions come under closer scrutiny than small-value multiple iterations. Small Value Transactions therefore easily fit into the standard format for most laundering transactions. Since they are not easily detected, these transactions pose a greater threat than larger transactions which encounter more deliberate and obvious scrutiny. Layering,

placement and integration remain the three main stages in standard money laundering techniques (Choo, 2008 p.3; Irwin et al., 2012).

1.4 RESEARCH QUESTIONS

1.4.1 Principal Question:

To what extent are alternative remittance agencies upholding customer identification standards when transferring and receiving funds?

This question is drawn from a need to understand the state of adherence to regulatory identification standards in alternative remittance agencies. For example if an agent fails to identify their customer then the entire system built to manage the risks of money laundering and terrorism financing have failed. In order to ensure that Australia enjoys reduced risk from incidents of terrorism, and organised crime is not given free reign, the AML/CTF legislation and associated regulations must be upheld.

1.4.2 Supporting Question:

What are the significant barriers to legislative adherence in ARS?

Prior to the drive to step up regulatory control after September 11, some ARS systems operated without account, transaction records, and the need to implement KYC policy. Furthermore, the current regulation of the Australian ARS industry does not appear to ensure an appropriate level of knowledge or understanding, regarding the need for an effective and progressive risk management plan. If ARS agents are not adhering to legislated AML/CTF regulations then the influence of their past informal behaviour may be a factor of influence in dis-incentivising others to comply with anti-money laundering legislation. The results of this enquiry will afford an understanding of the likely reasons for non-compliance in Australian money transfer agencies.

KEY TERMS AND DEFINITIONS

ADI: Authorised Deposit-taking Institution (AUSTRAC, 2007).

AFP member: a member or special member of the Australian Federal Police (AUSTRAC, 2007).

Agency: a Department of the Commonwealth, State or Territory, with reference to the term *designated agency*.

Alternative Remittance: An alternative form of cash or value transfer which is provided outside of regulated formal banking systems.

AML/CTF Rules: Anti-Money Laundering/Counter-Terrorism Financing Rules (AUSTRAC, 2007).

AML/CTF: Anti-Money Laundering/Counter-Terrorism Financing.

ASIO: Australian Security Intelligence Organisation.

ASIO Minister: the Minister responsible for administering the *Australian Security Intelligence Organisation Act 1979* (AUSTRAC, 2007).

AUSTRAC: Australian Transaction Records Analysis Centre; Australia's frontline AML/ CTF agency.

Australian account an account held in Australia and relates to the definition of *Australia* (AUSTRAC, 2007).

Australian government body: the Commonwealth, a State or a Territory, or an agency or authority of the Commonwealth, a State or a Territory (AUSTRAC, 2007).

Black money: Funds gained through the process of money laundering, and money that is attained through black market enterprise (Kochan, 2005 p.289).

Civil penalty order: an order whereby the Federal Court may order a person to pay the Commonwealth a pecuniary penalty (AUSTRAC, 2007).

Commercial goods carrier: a person who, in the normal course of business carries goods or mail for reward (AUSTRAC, 2007).

Commercial passenger carrier: a person who, in the normal course of business carries passengers for reward (AUSTRAC, 2007).

Compliance record: a compliance record is one that relates to the obligations of the reporting entity under the Australian AML/CTF Act 2006 (AUSTRAC, 2007).

Correspondent Banking: a relationship for the provision of banking services by one financial institution to another where the financial institutions are in different countries (AUSTRAC, 2007).

Designated Agency: Federal, State and Territory agencies that have access to AUSTRAC information (AUSTRAC, 2007).

Designated business group: An AUSTRAC authenticated business entitled to share customer identity information, have a joint AML/CTF program, lodge group compliance reports, and discharge various record keeping obligations (AUSTRAC, 2007).

Designated Non-Financial Business and Professions (DFNBP) - Non-financial businesses that are designated by AUSTRAC as at risk of being victim to and/or facilitating money laundering and terrorism financing. DFNBP's include lawyers, real-estate businesses, casinos, dealers in precious metals and stones, notaries, accountants, and trust and company service providers

Designated Remittance Service: A regulated remittance business which is authorised by AUSTRAC to conduct money and value transfers (AUSTRAC, 2007).

Designated Service: A financial service that must be registered with AUSTRAC in order to ensure regulatory oversight to prevent the laundering of money or terrorism financing (Australia, 2012).

Dirty Money: Money that is sourced from criminal activity and is not yet laundered, see also 'Black Money'.

DKYC Policy: don't know your customer policy.

Director-General of Security: the Director-General of Security holding office under the *Australian Security Intelligence Organisation Act 1979* (AUSTRAC, 2007).

Efficacy: Formal term for effectiveness; the suitability to generate an intended effect.

False customer name: any name by which a person is not commonly known (AUSTRAC, 2007).

FATF-GAFI: Financial Action Task Force.

FATF Recommendations: the Recommendations and Special Recommendations as adopted by the Financial Action Task Force on Money Laundering (FATF) at its plenary and special plenary meetings on 20 June 2003, 31 October 2001 and 20-22 October 2004 (AUSTRAC, 2007).

Financial institution: an ADI bank, building society or credit union and any person specified in AML/CTF Rules (AUSTRAC, 2007).

FIU: A Financial Intelligence Unit that collects financial data for the purpose of detecting instances of money laundering and terrorism financing. An FIU is a vital part of a nations AML regime, enabling law enforcement to take effective action to charge and convict offenders who commit crimes that predicate money laundering. Intercepting and reclaiming illegitimate funds and asset's that would otherwise never be detected (Levi, 2002).

Financing of Terrorism: An act that provides financial support to a registered terrorist organisation, whether through negligence, reckless action and/or inaction, or intentional criminal conduct (Australia, 2012).

Financing of terrorism offence: an offence against section 102.6 (getting funds to, from or for a terrorist organisation), and Division 103 (Financing terrorism) of the *Criminal Code*. Also an offence against sections 20 (dealing with freezable assets) and 21 (giving an asset to a proscribed person or entity), of the *Charter of the United Nations Act 1945* (CotUNA), and offences in a State, Territory or foreign country which correspond to those offences (AUSTRAC, 2007).

FSRB: FATF Styled Regional Bodies those sub-national organisations that emulate the FATF model on a regional basis (Jensen & Png, 2011).

Governance: The act of running a state or nation in a way that encourages "...equity, participation, pluralism, transparency, accountability and the rule of law, in a manner that is effective, efficient and enduring" (United Nations, 2012).

Governance, Poor: The antithesis of governance. Management of a nation that is; incompetent, illogical, tyrannical, unaccountable, inefficient, and ineffective (Moore, 2001 p.386).

Hawala: A familial based informal remittance system that is also known as underground or parallel banking. Originally created in the Middle East, Hawala (meaning 'trust' in Arabic) and its relatives, like the Indian based 'Hundi' system, were born out of a lack of formal banking infrastructure.

Informal Remittance: A remittance system that is not regulated or monitored, often operating out of direct view of the public, and to a specific ethnic customer base.

IGIS: Inspector-General of Intelligence and Security, IGIS is a designated agency (AUSTRAC, 2007).

INGO: international non-government organisation

Integration: The third step in a standard money laundering act. The once laundered money is further disguised by through ‘integration’ with a legitimate business (Choo, 2008; Irwin et al., 2012).

KYC (Know Your Customer): the identification policy implemented in reporting entities (RE) whereby an appropriate level of identification must be provided by all customers and recorded in order to legally transfer funds through a *designated remittance service*.

Layering: The second step in standard money laundering *modus operandi*. This step involves ‘layering’ illegitimate funds into and through legitimate systems, generally in smaller amounts, to hide the origins of the funds. The semi-clean money is then collected prior to ‘integration’ (Choo, 2008; Irwin et al., 2012).

Money laundering (ML): The act of processing illegitimately gained funds in order to hide their origin and pass that money off as legitimate (Kochan, 2005 p.289). Any conduct that amounts to offences against Division 400 of the *Criminal Code* or corresponding State or Territory or foreign country offences (AUSTRAC, 2007).

Money Service Businesses: A term used by the FATF and AUSTRAC to describe businesses in the industry of sending money, also known as an Alternative Remittance System.

Penalty unit: a penalty unit under section 4AA *Crimes Act 1914* is worth \$110 (AUSTRAC, 2007).

Physical currency: all coins and printed money that are designated as legal tender and circulate as and are customarily used and accepted as a medium of exchange in the country of issue (AUSTRAC, 2007).

Placement: This is the first step of the standard three step process for laundering money. It refers to the introduction of illegitimate funds to the formal economy prior to ‘layering’ (Choo, 2008; Irwin et al., 2012).

Predicate Offence: An offence which precedes money laundering (i.e. drug trafficking, human trafficking, tax evasion etc)

Primary photographic identification document means any of the following:

- National or International Drivers License.
- A passport issued by the Commonwealth.
- International passport issued by foreign government or U.N.
- Australian government issued national proof of age card with photo and signature.
- A national identity card issued by foreign government or U.N. with a photograph and signature (AUSTRAC, 2007 b).

Primary non-photographic identification document means any of the following:

- Birth certificate or birth extract.
- Citizenship certificate issued by the Commonwealth.
- Citizenship certificate issued by a foreign government.
- Birth certificate issued by a foreign government.
- Pension card issued by Centrelink (AUSTRAC, 2007 b).

Promissory note: an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay a sum of money on demand or at a fixed or determinable future time (AUSTRAC, 2007).

Regulated Entities: a collective term used to refer to the entities AUSTRAC regulates, including both 'cash dealers' (under the FTR Act) and 'reporting entities' (under the AML/CTF Act) (AUSTRAC, 2011 g).

Reporting Entity: any registered and regulated remittance service provider that is monitored by AUSTRAC (also see Regulated Entities).

Remittance: The act of transferring and/or converting value and/or funds.

SCTR: significant cash transaction report: submitted to AUSTRAC under the FTR Act, in respect of a currency (coin or paper money) transaction involving AUD \$10,000 or more (or the foreign equivalent) (AUSTRAC, 2011 g).

Small Value Transaction: SVT, any remittance under \$500 in value.

Suitable: Able to generate an intended effect (Reinsch et al., 2004)

Stored value card: a portable device that can store monetary value other than in physical currency form (AUSTRAC, 2007).

Taxation law: the term is defined to have the same meaning as in the *Taxation Administration Act 1953* (TA Act) (AUSTRAC, 2007).

Transfer: any act or thing that may reasonably be regarded as the economic equivalent of transfer. This extended definition is to put beyond doubt that the term covers alternative remittance arrangements where no money or property actually changes hands (AUSTRAC, 2007).

Wire Transfer Remittance Service: also known as a telegraphic transfer, a wire transfer remittance service refers to a business that transfers funds locally and internationally using a formal and regulated wire transfer system.

CHAPTER TWO: A REVIEW OF THE LITERATURE

2.1 INTRODUCTION

Organised crime and terrorism flourish in countries with poor governance. As Huntington's 'Clash of Civilisations' (1997) theory has continued to play out, the influence of poor governance has amplified criminal opportunities as the world's cultures collide. The events of September 11, 2001 were a good example of the significant impact poor governance can have on global economic security (NCTAUS, 2004). The attacks on the World Trade Centre towers activated a global push to combat terrorism on all fronts, including the methods by which it is financed. Prior to this event, the act of money laundering was mainly viewed as a tool to evade tax and clean the proceeds of crime (Levi & Reuter, 2006). The investigation into the September 11 attacks showed that along with formal financial systems, alternative systems such as Western Union and Hawala were also key sources of finance (NCTAUS, 2004). As a result action was taken to regulate informal systems like Hawala and Hundi, and increase regulatory requirements within ARS internationally (Reuter & Truman, 2004). Despite this, the exploitation of ARS has perpetuated, and informal remittance systems continue to operate illegally (Passas, 2003; 2006; Razavy, 2005; Rees, 2010).

The Australian AML/CTF regulatory administrator AUSTRAC (in combination with the Australian Federal Police) is responsible for ensuring compliance in all Regulated Entities; this includes ARS agencies (AUSTRAC, 2007). Regulation of ARS in Australia is legislated under the AML/CTF Act of 2006 (Australia, 2012). This legal bill has applied a significant level of pressure to the average ARS agency, especially in terms of the need for technical knowledge and cost (Geary, 2009). Regulation of this type is insufficient to inhibit the risk of money laundering in ARS (Passas, 2006; Rees, 2010; Reuter & Truman, 2004). Ordinary citizens are more concerned with social and community-based transactional frameworks than legislative compliance.

The informal, cultural, and familial trust intrinsic to ARS and informal systems is attractive to citizens that originate in countries throughout Asia, the Middle East, and Africa. The common ground held between ordinary citizens, organised criminals, and terrorists, complicates the illegality of unregulated remittance alternatives (Cook & Smith, 2011 a). In order to effectively reduce the risk of money laundering, support for regulatory measures must take into account the eight barriers to compliance that persist as influential hallmarks of many centuries of informal money transfer business.

2.2 MONEY LAUNDERING AND FINANCING TERRORISM

Money laundering is an act carried out to hide the origin of criminally sourced funds, property, or valuable assets (Levi & Reuter, 2006). Hence the nature of the act makes it inherently difficult to measure. Despite this it is estimated that a total of USD\$870 billion in dirty money is earned annually through criminal enterprise (UNDOC, 2012). Moreover approximately USD\$150-\$300 billion is laundered through informal remittance systems annually (Buencamino & Gorbunov, 2002 p.2; Rees, 2010). This level of unchecked wealth is a significant threat to international

security because in comparison very little funds are needed to carry out an effective terror attack (Cook & Smith, 2010; NCTAUS, 2004).

Combating money laundering and the financing of terrorism is a challenge which incurs a significant cost to society. An impediment to this effort is the lack of broad access to accurate quantitative data, which would serve to better inform frontline stakeholders of a level of efficacy in terms of global anti-money laundering regulation (Levi & Reuter, 2006). This is due to the confidential nature of financial transactions which restricts access to anti-money laundering data sets (Verhage, 2010). The international community is heavily reliant on the Financial Action Task Force to inform best practice in this area. The FATF has established 49 recommendations intended to direct best practice standards of AML/CTF regulatory governance (FATF-GAFI, 2012). Despite the existence and support for this standard, not all countries are willing or able to implement effective changes (Moore, 2001). This is often due to economic restrictions and poor governance (*ibid*). Lacking holistic implementation of sound economic policy and governance, the international AML/CTF effort is consistently undermined by transnational organised crime and terrorist groups.

2.3 THE INTERNATIONAL ANTI-MONEY LAUNDERING EFFORT

There are three dimensions to the global anti-money laundering system. According to Reuter and Truman (2004), these are:

- a) A framework for building effective anti-money laundering systems,
- b) An effective legislative and law enforcement base, and
- c) A goals and compliance/cost reduction-focussed relationship between private and public sectors. (p.45)

These dimensions are represented by a number of international systems supported and monitored by global NGO's and inter-governmental bodies such as the FATF, International Monetary Fund, and World Bank. The impetus for effective legal and enforcement processes, as well as the international AML framework, is built of systems supported by these bodies (and others) which aim to implement the 40+9 recommendations and promote good governance (FATF, 2012; IMF, 2011; Schott, 2006). The last dimension of the anti-money laundering effort is highly important because it provides the theoretical and logical grounding for effectiveness. Such efficacy may be beyond what is possible through mere oversight and direction of third parties and a willing government. Without the incentive to operate outside regulatory oversight being significantly inferior to the benefits of compliance, holistic support for anti-money laundering regulations is very unlikely to take hold (Reuter & Truman, 2004). In other words the positive outcomes of regulation need to outweigh the added cost.

The discourse on international anti-money laundering, consistently refers to the system as being a 'regime' (Reuter & Truman, 2004; Levi & Reuter, 2006; Passas, 2003; 2006; Irwin et al. 2012). According to Kern Alexander (1993), an international regime is defined as; "...a system of norms, standards, procedures, institutions and rules of conduct that constrain and shape state behaviour in a particular issue area" (p.231). For Kern, regimes can be formal or informal and cover all legal obligations. He posits that the purpose of an 'international regime'

(Alexander, 1993): "...is to regulate and control certain transnational relations and activities by establishing international procedures, rules and institutions" (p.231). Kern's definition accurately describes the global anti-money laundering system. For the purpose of this research the international anti-money laundering effort or system may also be referred to as a 'regime'.

Figure 2. Two Pillars of the International Anti-Money Laundering Regime

Pillar Levels	Prevention	Enforcement
Formal Treatment	Sanctions	Confiscation
Principle Measures	Regulation and Supervision	Prosecution and Punishment
Intermediate Level	Reporting	Investigation
Foundation Level	Customer Due Diligence	Predicate Crimes

Fig 2. (Reuter & Truman, 2004; Levi & Reuter, 2006)

There are two main avenues through which the international anti-money laundering challenge is tackled; prevention and enforcement (see Figure two). This table is designed in the form of pillars to represent the basic structure of the international AML/CTF regime. The foundation of the pillar-based regime structure is at the foot of the table representing the first line of defence against money laundering. A step up each pillar represents an increasingly formal mechanism designed to reinforce the previous step (Reuter & Truman, 2004 p.46-48).

The prevention pillar represents actions aimed at creating a deterrent for criminals that would exploit individuals and institutions to launder illegitimate funds (Reuter & Truman, 2004). Implementing sanctions on people and organisations prevents the propagation of criminal and terrorist activity. Sanctions generally take the form of major fines and are enacted upon detection of gross or persistent non-compliance with AML/CTF regulations and laws (*ibid*). Taking steps to regulate and supervise financial institutions, non-financial businesses, and activities is a vital part of inhibiting money laundering in a holistic manner (Levi & Reuter, 2006). Ensuring the recording and reporting of all transactions, including suspicious transaction (SUTR) activity, is of high importance in order to ensure that acts of money laundering and terrorism financing are detected in a timely manner. These measures, when combined with effective Customer Due Diligence (i.e. the appropriate and diligent identification of all customers that use designated services), serves as an influential deterrent for service providers and criminals alike (*ibid*).

The enforcement pillar, outlined in Figure three, is divided into four sections that cover the reactive legal measures employed to inhibit money laundering. These are;

- a) Confiscation
- b) Prosecution and Punishment

- c) Investigation
- d) Predicate Crimes

The effectiveness of law enforcement is reliant on the clarity of AML/CTF law in every jurisdiction. The skills, experience, and resources available to enforcement authorities also have a significant impact on the efficacy of anti-money laundering regulation (Reuter & Levi, 2006). It is important to criminalise predicate offences using clear and internationally accepted definitions, in order to ensure the efficacy of the global anti-money laundering system (Ridley, 2008). Furthermore, authorities must be capable of confiscating funds that are found to be the product of illegitimate activity after first being blocked or seized during an investigation (Levi & Gilmore, 2003). These four levels of enforcement represent the minimum capability required for an effective AML/CTF system (Reuter & Truman, 2004).

A vital component of the global anti-money laundering programme is the creation and support of Financial Intelligence Units (FIU's) (Jensen, 2008). An FIU is an organisation that collects information and reports from relevant entities, and conducts in depth analysis to detect instances of money laundering (*ibid*). The regulations under which an FIU functions should engage the agency in two ways (Masciandaro, 2005). First it acts as a risk management tool and deterrent for non-compliance, and secondly as a device to aid law enforcement to uphold AML/CTF law, although this is not the case for all FIU's (*ibid*). According to Walters et al. (2011) and Schott (2006), there are four different variations on financial intelligence units. These are;

- a) Administrative
- b) Law Enforcement
- c) Judicial or Prosecutorial
- d) Hybrid

The Australian financial intelligence unit 'AUSTRAC' is an Administrative agency which functions as a support mechanism for law enforcement (AUSTRAC, 2007 b). An 'Administrative' FIU is well suited to sharing resources internationally, but generally lacks any power to take immediate action to inhibit detected instances of money laundering. Conversely a 'Law Enforcement' FIU has the ability to act directly (Schott, 2006; Walters et al., 2011). However, generally enforcement units are not open to co-operative progression with other FIU's internationally. Thirdly a 'Judicial or Prosecutorial' unit is highly independent and generally free of political influence. Yet this type of FIU may also be viewed as an extension of law enforcement and may face challenges interacting with other FIU's (Schott, 2006; Walters et al., 2011).

Examples of where administrative financial intelligence units can be found include Belgium, France and the United States. Examples of countries with 'Law Enforcement' units include Germany, the United Kingdom, Hong Kong and Singapore (Walters et al., 2011). A 'Hybrid' style FIU is a mix of any of the three previously discussed categories (*ibid*). The Egmont Group of Financial Intelligence Units (see Figure four), provides useful services to equip new FIU's with the skills and knowledge to effectively detect and deter money laundering, and a forum for the sharing of information and experience, to progressively improve FIU's globally (Egmont, 2012; Schott, 2006).

One of the key challenges facing an anti-money laundering programme is the extent to which regulations require information to be gathered by a financial intelligence unit (Walters et al., 2011). For example, in the US suspicious transactions reports (SUSR's) are only required to be reported if above USD\$2000, whereas in Australia all transactions and suspicious transactions reports are required to be reported and sent to AUSTRAC regardless of the amount (*ibid*). For Australia the challenge of dealing with information overload, amplified by defensive over reporting, does not seem to be a concern (Rees, 2010). In contrast the US attempts to avoid this issue, but is not alarmed by the standard mode of 'layering' illegal funds that may occur in amounts just less than USD\$2000 (Irwin et al., 2012; Levi & Reuter, 2006). For both nations 'layering' in amounts just less than \$10,000 is also a major issue that has been overlooked (Walters, et al., 2011). Both the US and Australia only require significant levels of identification when moving funds amounting to more than \$9,999 (*ibid*). These issues are fundamental cases of where to 'draw the line' on obligatory reporting of transactions, where arguments to lower or raise thresholds can be convincing on both sides.

The regulatory difficulties congruent with attaining consistent and global implementation of anti-money laundering practices, illustrate the need for wide-reaching legislation. Cross jurisdictional irregularities represent key weaknesses in global anti-money laundering action. It is clear that in order to mitigate this issue substantially, the world's nations would need to unite on strategic goals, and practice good governance regardless of economic, societal and cultural barriers (Ridley, 2008; Levi & Reuter, 2006; Reuter & Truman, 2004). Although this option is likely beyond an outcome that would be realised in the near future, it is also clear that positive outcomes in the transnational battle against money laundering can still be achieved. The international anti-money laundering regime was built on the creation of the FATF in 1989 (FATF-GAFI, 2012 b). Since then many positive changes have taken place, such as the mutual evaluations that led to the creation of the Australian AML/CTF Act of 2006. However, the task to inhibit money laundering throughout the global economy has not yet been completed.

2.3.1 FATF and World Bodies

The international anti-money laundering effort is supported and directed by many international non-government organisations (INGOs). Figure three is an outline of the key international bodies that set standards relevant to inhibiting money laundering. The chart also includes a brief outline of the tools they employ to inhibit money laundering.

Figure 3. AML/CTF Organisations that Set Standards

International Body	Anti-Money Laundering Instruments
Financial Action Task Force (FATF, 2012 a; Schott, 2006)	<ul style="list-style-type: none"> 1. The Forty Recommendations on Money Laundering 2. Monitoring Members' Progress 3. Reporting Money Laundering Trends and Techniques 4. The NCCT List 5. Special Recommendations on Terrorist Financing 6. Methodology for AML/CFT Assessments
United Nations (UN) (Jensen & Png, 2011; Schott, 2006)	<ul style="list-style-type: none"> 1. Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) 2. International Convention for the Suppression of the Financing of Terrorism (1999) 3. Convention against Transnational Organised Crime (2000) 4. Convention on Corruption (2003) 5. Security Council Resolution 1267 and Successors (1999) 6. Security Council Resolution 1373 (2001) 7. Global Programme against Money Laundering 8. The Counter Terrorism Committee
Basel Committee on Banking Supervision (Alexander, 1993; Schott, 2006)	<ul style="list-style-type: none"> 1. Statement of Principles on Money Laundering 2. Core Principles for Banking 3. Customer Due Diligence
The Egmont Group of Financial Intelligence Units (Egmont, 2012; Schott, 2006)	<ul style="list-style-type: none"> 1. Training and exchange of employees to improve expertise 2. Promoting operational autonomy 3. Sharing knowledge to improve efficacy 4. Systemising and expanding reciprocal co-operation
International Organization of Securities Commissioners (OICV-IOSCO, 2012)	<ul style="list-style-type: none"> 1. Cooperate in developing, implementing and promoting adherence to international regulatory standards and good governance. 2. Ensuring effective oversight and enforcement in order to protect investors. 3. Address systemic risks. 4. Enhance investor protection and promote investor confidence in the integrity of securities markets. 5. Share information and experience to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.
International Association of Insurance Supervisors (IAIS, 2012)	<ul style="list-style-type: none"> 1. Issues global insurance principles, standards and guidance papers. 2. Provides training and support on insurance supervision issues 3. Holds meetings and seminars for insurance supervisors.

Of the international organisations outlined in Figure three, the United Nations and the FATF lead global efforts in terms of anti-money laundering standards. Four key international legal conventions have been created by the United Nations to inhibit money laundering (Jensen & Png, 2011):

- (a) Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988).
- (b) International Convention for the Suppression of the Financing of Terrorism (1999).
- (c) Convention against Transnational Organised Crime (2000)
- (d) Convention on Corruption (2003).

Sanctions have also been adopted by the UN Security Council, pursuant to Chapter VII of the UN Charter. The most notable Security Council Resolutions (SCR's) of this type are Security Council Resolution 1267 (1999) and its amendments, as well as Security Council Resolution 1373 (2001) (Schott, 2006), 1540(2004), 1566(2004), and 1624 (2005). These sanctions are specifically targeted at terrorism linked assets, and call on all member states of the UN to take effective action to inhibit the financing of terrorism (UNDOC, 2012 a).

The Financial Action Task Force was established as an inter-governmental organisation by the United Nations (FATF-GAFI, 2012 b). The central reason for the creation of the FATF was to oversee the design, implementation and progression of the 40 Recommendations first adopted in 1990 (*ibid*). The main goal of this organisation is to achieve global implementation of FATF standards (FATF/OECD, 2011). The discharge of these standards in turn promotes good governance globally and improves international legislative unity on acts that predicate money laundering and the financing of terrorism. Moreover, in 2001 the FATF adopted nine special recommendations specifically focussed on countering the financing of terrorism, which together are now widely referred to as the FATF 40+9 Recommendations (Jensen & Png, 2011). Despite the fact that the recommendations are not international legislative instruments, they still have extensive links to the fundamental guiding principles behind key UN Conventions and Security Council Resolutions that relate to anti-money laundering (Stessens, 2000).

Figure 4. The 36 Members of the FATF

FATF Members			
Argentina	Finland	Ireland	Russian Federation
Australia	France	Italy	Singapore
Austria	Germany	Japan	South Africa
Belgium	Greece	Republic of Korea	Spain
Brazil	<i>Gulf Co-operation Council</i>	Luxembourg	Sweden
Canada	Hong Kong, China	Mexico	Switzerland
China	Iceland	Netherlands, Kingdom of	Turkey
Denmark	India	New Zealand	United Kingdom
<i>European Commission</i>	Portugal	Norway	United States

Fig 4. (FATF-GAFI, 2012 c)

The Financial Action Task Force consists of 34 member jurisdictions and two regional organisations (see Figure four). The 36 members represent most of the major stakeholders in the global economy (FATF-GAFI, 2012 c). The European Commission is the representative body for the European Union as a whole, acting in the interest of the European Union in a holistic sense (FATF-GAFI, 2012 d). Similarly the Gulf Co-operation Council represents the various stakeholders of the Middle East; however unlike the European Union, none of the Gulf States (i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are members of the FATF (FATF-GAFI, 2012 f). These states are also well known as large international hubs for informal value transfers and money laundering (Maimbo, 2003; Maimbo & Passas, 2006). As a result the Gulf Co-operation Council (GCC) was established and inducted as a member of the FATF. As such the Gulf Co-operation Council is committed to the implementation of the 40+9 Recommendations in its region. In taking action to achieve this goal, the Gulf Co-operation Council carries out mutual evaluations to determine the progress of AML/CTF legal and regulatory action in the Gulf States (*ibid*).

Figure 5. FATF Styled Regional Action Groups on Money Laundering

Associate Members of the FATF			
Asia/Pacific Group on Money Laundering (APG)	Eurasian Group (EAG)	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)	Inter Governmental Action Group against Money Laundering in West Africa (GIABA)
Caribbean Financial Action Task Force (CFATF)	Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)	Financial Action Task Force on Money Laundering in South America (GAFISUD)	Middle East and North Africa Financial Action Task Force (MENAFATF)

Fig 5. (FATF-GAFI, 2012 c)

In order to effectively oversee the global implementation of the FATF standards, regions are managed by individual organisations that monitor and provide advice (FATF-GAFI, 2012 c). These regional action groups seen in Figure five are officially termed FATF Styled Regional Bodies. These NGO's have been established to provide support and oversight to nations implementing the globally accepted FATF 40+9 Recommendations (FATF-GAFI, 2012 e).

2.3.2 International Anti-Money Laundering Support Bodies

The FATF understands that the global issues with money-laundering are so complex in structure that they require a host of support bodies, which work on a regional and sub-regional basis (FATF-GAFI, 2012 c). These NGO's fill the gaps in AML/CTF interaction that would otherwise proliferate in a 'Nation-State' only model. FATF Styled Regional Bodies are different from support bodies because they carry out the duties of the FATF in a regional sense, and they are the primary mutual evaluation organisation for their given sector (Levi & Gilmore, 2003; Jensen & Png, 2011). In contrast, support bodies often have other functions beyond the straight-

forward response required to inhibit money laundering (IMF, 2012; Schott, 2006; CTCED, 2011; UNDOC, 2012 a).

Figure 6. Key International AML/CTF Support Bodies and Services

Anti-Money Laundering Support Bodies	Anti-Money Laundering Services Provided
International Monetary Fund (IMF, 2012; Schott, 2006) <i>'Macro-economic Focus'</i>	<ul style="list-style-type: none"> 1. Economic Policy Advice to ensure macroeconomic stability. 2. Temporary Finance to prevent economic collapse. 3. Technical advice and training to build economic expertise and effective institutions. 4. Promoting international monetary cooperation. 5. Facilitating the expansion and balanced growth of international trade. 6. Promoting foreign currency exchange stability. 7. Assisting in the establishment of multilateral systems of payments.
World Bank (Schott, 2006) <i>'Fighting World Poverty'</i>	<ul style="list-style-type: none"> 1. Economic Policy Advice. 2. Temporary Financial aid for developing countries. 3. Technical advice and training to build economic expertise and effective institutions. 4. Building private and state partnerships.
Counter-Terrorism Committee (CTCED, 2011) <i>'Combating Terrorism'</i>	<ul style="list-style-type: none"> 1. Technical Assistance. 2. Country Reports. 3. Individual state consultation on implementing international standards on CT. 4. Organising 'special' meetings to build relationships and communication between relevant bodies and stakeholders.
Global Programme against Money Laundering (UNDOC, 2012 a)	<u>Advisory services to:</u> -states/jurisdictions and Financial intelligence units <u>Tools/field support avenues:</u> -Workshops/seminars -E-Learning -Mentor programme

There are 31 regional and international support bodies that provide services to nations to help them implement the FATF 40+9 Recommendations (FATF-GAFI, 2012 f). Of these, the International Monetary Fund and the World Bank are good representations of NGO's which offer AML/CTF services to achieve compliance with international financial standards, and membership status in the FATF. These organisations grant economic and policy advice, financial aid, technical advice and training to build economic experience and increase efficacy in key institutions (IMF, 2012; Schott, 2006).

Counter-terrorism is a critical tool in the effort to inhibit money laundering and to protect the integrity of the global economy. At the head of the international CTF support bodies, forged by the UN, is the Counter-Terrorism Committee. The Counter-Terrorism Committee is run by the Counter-Terrorism Committee Executive Directorate (CTCED), and is primarily tasked with providing aid to UN member states to effectively counter terrorism (see Figure six). This includes tasks very similar to the IMF and World Bank but instead with a direct focus on counter terrorism (CTCED, 2011). Effective counter-terrorism measures are vital to maintaining

international security. Central to success in counter terrorism, is the control of financial flows to prevent the enabling of terrorist activity through financial restriction (Irwin et al., 2012; Kochan, 2005). Therefore the ability to launder money has a direct correlation to the threat of terror attack.

Another key support body is the Global Programme against Money Laundering (GPML). The GPML was established in 1997 by the United Nations Office on Drugs and Crime (UNDOC) (UNDOC, 2012 a). The impetus for creating the Global Programme against Money Laundering was a mandate given to the UNDOC as a result of the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The programme was later strengthened in 1998 by the United Nations General Assembly Special Session (UNGASS) Political Declaration and Action Plan against Money Laundering. As a result the GPML special mandate was expanded beyond drug offences to include serious criminal acts (ibid). Like the IMF and the World Bank (IMF, 2012; Schott, 2006), the GPML assists all nations to adopt international AML/CTF standards (UNDOC, 2012 a). The Global Programme against Money Laundering contributes to the AML/CTF effort by providing advice to states and FIU's as well as training, which includes e-learning courses, workshops and seminars. The organisation also operates a mentor programme to promote growth of knowledge, experience, and co-operative relationships between countries (UNDOC, 2012 a). The Global Programme against Money Laundering is a generic support organisation designed to aid all countries in implementing and operating AML/CTF systems and regulations effectively.

2.3.3 US Legislation

The United States anti-money laundering system is used as a model by many countries. This is because the US anti-money laundering system is regarded as the pioneer of international AML/CTF regulation, and the US economy is significant within the context of global trade (Reuter & Truman, 2004). The key features of the US anti-money laundering programme are;

- a) The PATRIOT Act, 2001.
- b) Law Enforcement based financial intelligence unit.
- c) Three separate offences for money laundering.

The PATRIOT Act was created in the wake of the attacks on the World Trade Centre and the Pentagon in 2001, to substantially increase the prevention and enforcement power behind the United States anti-money laundering system (Congress, 2001). This legislation is of note because it enables US law enforcement authorities to pursue warrants to arrest offenders on foreign soil (Reuter & Truman, 2004). This includes all predicate and money laundering offences under the PATRIOT Act (ibid).

The cross jurisdictional reach of the PATRIOT Act is representative of the sharp end of a broader trend in the international anti-money laundering system. According to Levi & Reuter (2006), the international anti-money laundering system has evolved over decades into a system used by the international community as a 'self evident' regulatory programme. They posit that it is now taken for granted that the prevention of predicate crimes is justification for interfering in the legal practices and criminal justice systems of other states (Levi & Reuter, 2006 p.308). In this regard Non-Compliant Countries and Territories (NCCT's) are publicly named when

they fail to meet the standard set by the FATF (Levi & Gilmore, 2003). While the PATRIOT Act is a more direct form of intervention that has stemmed from an earlier culture of international financial intrusion by the US (Reuter & Truman, 2004 p.309), the international community has followed suit in a less direct manner (Levi & Gilmore, 2003).

The US financial intelligence agency, known as the Financial Crimes Enforcement Network (FinCEN), is a law enforcement based financial intelligence unit (Walters et al., 2011). FinCEN works in direct collaboration with authorities and employs a 'follow the money' method for detecting financial crime and terrorism (FinCEN, 2012). The US, like the United Kingdom (UK), has three separate offences for money laundering. The three offences defined by US law (AIC, 2009; Congress, 2001) are:

- (a) Conducting a transaction using the proceeds of crime with the intent to disguise its origins, avoid a transaction report or commit another offence;
- (b) Transporting the proceeds of crime into, out of, or through the United States with the intent to disguise its origins; and
- (c) Conducting transactions with funds represented as the proceeds of crime.
(AIC, 2009 p.2; Congress, 2001)

The US offences are very specifically aimed at the movement of funds. Conversely the United Kingdom offences include not only transactions but also possession of stolen property (AIC, 2009). The US and Australia also have legislation which makes reporting mandatory for all transactions over \$10,000, commonly known as a 'spending statute' (AUSTRAC, 2007 b; Congress, 2001).

2.3.4 Australian Legislation

Money laundering is legislated as a criminal act under Division 400 of the *Criminal Code Act 1995* (Cth), which was added to the Criminal Code in 2003 by the *Proceeds of Crime Act 2002* (AIC, 2009). Australia has one of the most complex money laundering offence lists in the world, consisting of 19 separate offences (Brown, 2009). These can be separated into two groups; funds generated by an illegal activity, and funds used to conduct an illegal activity. Similar to United Kingdom law, possession of stolen goods or property is a singular money laundering offence. Under these conditions, an offence attracts a maximum penalty of 2 years (Australia, 2005). However the other 18 offences under the 'funds used to conduct an illegal activity' section are separated based on the value of assets and the intent of the offender. Similarly punishment increases in severity based on the sum of funds involved and the offenders' knowledge of the funds' origins (ibid). Corresponding severity of punishment with the denomination of funds is set out in bands. According to the Australian Institute of Criminology (2009), these are;

- a) \$1,000,000 or more;
- b) \$100,000 to \$999,999;
- c) \$50,000 to \$99,999;
- d) \$10,000 to \$49,999;
- e) \$1,000 to \$9,999;
- f) Funds of any value.

In addition, there are three offences that apply to each band. Regarding which offences apply to each case, again the knowledge of the offender and his/her

intended use for the funds are key points of reference for the level of punishment (Australia, 2005). In terms of prevention and regulation Australia has legislated two key Acts, the Financial Transaction Records Act (FTR) 1988 (2011), and the Anti-money Laundering and Counter Terrorism Financing Act 2006 (AUSTRAC, 2007; Australia, 2012).

Businesses and organisations that provide financial services of any kind, as defined in section six of the AML/CTF Act 2006 (Australia, 2012), are designated service providers. This means that any entity providing any one of the 54 different financial services outlined in section six, must submit to regulatory oversight by registering with AUSTRAC directly (Brown, 2009). AUSTRAC labels entities that provide designated services collectively as Regulated Entities (RE's) (AUSTRAC, 2012). Under the AML/CTF Act 2006, a Regulated Entity is also required to send annual compliance reports to AUSTRAC, carry out ongoing Customer Due Diligence (CDD), as well as implement and maintain an effective and tailored risk management plan to reduce the risk of money laundering (AUSTRAC, 2007 b p.23-26; Australia, 2012). Under the AML/CTF Act 2006 Regulated Entities are generalised as financial institutions that provide a designated service, however some also fit into the following three categories;

- a) Designated Business Group.
- b) Designated Non-Financial Businesses and Professions (DNFBP)
- c) Designated Remittance Service (DRS)

Designated Regulated Entities are service providers that have registered with AUSTRAC and have taken immediate steps to ensure regulatory compliance under the AML/CTF Act 2006 (Australia, 2012). Being a designated service provider means you are cleared to operate that service provided AML/CTF risk management systems and processes are ongoing. A designated business group is any commercial group of service providers that have been authenticated as compliant by AUSTRAC. As a result the group is entitled to share customer identity information, have a joint AML/CTF program, lodge group compliance reports, and discharge various record keeping obligations (AUSTRAC, 2007). According to Alistair Brown (2009), the Regulated Entities covered by the Designated Non-Financial Businesses and Professions term are “casinos, precious metals and stones dealers, lawyers,.. notaries, real estate agents, accountants, and trust and company service providers” (p.10). Thirdly, a Designated Remittance Service is defined as an authorised money or value transfer system (AUSTRAC, 2007).

In 2005, Australia's AML/CTF regime was audited by the FATF through a ‘mutual evaluation’ process (FATF-GAFI, 2005 b). The audit found that significant changes were required to bring Australia's AML/CTF regime in line with international AML/CTF standards (Brown, 2009; FATF-GAFI, 2005 b). In response to the audit results, a year later Australia enacted The Anti-money Laundering and Counter Terrorism Financing Act 2006 (AUSTRAC, 2007 b; Australia, 2012), which built upon existing obligations under the Financial Transaction Records Act 1988 (Australia, 2011; Brown, 2009). The new legislation affected a significant expansion of AUSTRAC's regulatory remit (AIC, 2009; AUSTRAC, 2007 b; Brown, 2009). AUSTRAC has since expanded from 154 (FATF-GAFI, 2005 a) to 294 employees (AUSTRAC, 2012 c), and regularly collects transaction and compliance information from over 16,000 Regulated Entities (*ibid*).

Figure 7. Australian Anti-Money Laundering Legislative Outcomes

ML Legislation	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
POCA s 81, s 82	1	9	0	1	3	0	1	0	15
Criminal Code s 400	n/a	5	6	11	14	40	42	50	168
AML/CTF Act	n/a	n/a	n/a	n/a	16	37	9	12	74
FTR Act	131	168	79	76	53	23	19	17	566
Total	132	182	85	88	86	100	71	79	823

Fig 7. (Commonwealth Department of Public Prosecutions, 2011, cited by Walters et al. 2011 p.68)

The Australian anti-money laundering regime is unique and highly complex. The effectiveness of Australia's anti-money laundering system is difficult to measure because there has been very few money laundering convictions in comparison to other member nations, i.e. United Kingdom and Hong Kong, (AIC, 2009; Brown, 2009). This issue was also highlighted in the 2005 mutual evaluation of Australia's anti-money laundering programme (FATF-GAFI, 2005 b). Figure seven shows that between 2002 and 2010 Australia dealt with 823 offenders for money laundering related offences. Whereas according to the Australian Institute of Criminology (2009), between February 2003 and December 2005 the United Kingdom handed down 910 convictions and 492 custodial sentences (Harvey, 2008 cited by AIC, 2009). Figure seven suggests that anti-money laundering legislative outcomes are on a downward trend. Furthermore the enforcement of the United Kingdom's anti-money laundering legislation has been significantly more effective in only two years in comparison to the outcomes achieved through the Australian anti-money laundering system over eight years.

2.3.5 FATF Recommendations and Worldwide Compliance

The international community behind the global anti-money laundering effort has built the system into an unrivalled international regulatory machine. According to Levi and Reuter (2006 p.308), this is evident because unlike the early years of the global push to implement the 40+9 recommendations, the modern international community "now takes it for granted that the objective of preventing drug trafficking, fraud, and terrorism entitles it to intervene in the laws and practices and criminal justice activities of other states, particularly the less powerful ones" (p.308). The push for worldwide compliance with the FATF 40+9 recommendations continues to act as a collective international government would, to reduce crime and secure the global economy.

Significant aspects of the international anti-money laundering system are the mutual evaluations carried out by the FATF and its affiliates, using a specific method based on the 40+9 recommendations (FATF-GAFI, 2005 b). Mutual evaluations are carried out by the FATF, its regional bodies, and affiliated NGO's, on a cyclical basis to determine the efficacy of a nations anti-money laundering system (*ibid*). These audits are primarily intended to provide a third party perspective for countries which are having difficulty implementing the FATF 40+9 recommendations (Levi & Gilmore, 2003). This process is designed to induce a state of cross-jurisdictional consistency.

The lack of which prevents the enforcement of anti-money laundering law across international borders (Reuter & Truman, 2004).

The main focus for the FATF and the myriad of anti-money laundering support bodies is the standard of compliance in developing and emerging nations. In the Asia-Pacific region, 24 countries have undergone mutual evaluations since the beginning of 2004 (Jensen & Png, 2011). These countries are part of the Asia Development Bank and have made positive changes to their anti-money laundering programmes as a result of the audits. Regardless, the economic and political instability of these nations inhibits most efforts to implement and maintain economic regulation (*ibid*). Jensen and Png (2011), hold that in order to effectively progress with regard to international anti-money laundering compliance, the international community must take into account the unique environment and cultural factors of each developing nation. In support of this statement, Levi and Reuter (2006) posit that in order to improve the rate of money laundering and counter-terrorism financing inhibition, authorities must look beyond international regulations and look to other vectors in order to move forward. This point is important because it relates to the push for compliance in the broader ARS sector, which is an extension of the culture and tradition of economic processes born of developing countries with ancient cultural history (Cook & Smith, 2010; Passas, 1999; 2003; 2006). Thus authorities that oversee the regulation of ARS businesses on a domestic level should also attain and draw on an understanding of these factors, as the international community should when developing and implementing standards in developing countries (Cook & Smith, 2011 a; Jensen & Png, 2011; Passas, 2006).

2.4 MONEY LAUNDERING IN PRACTICE

Money laundering is closely linked to tax evasion, both of which are an evolution of shadowy traits evident throughout the history of trade practice. In the late 16th century, transatlantic slave trade between Madagascar and the new states of America was booming. However there was illegitimate competition between the royally licensed English East India Trading Company (EITC) and colonial pirates (Platt, 1969 p.549). The pirates would use the EITC's trade route to purchase slaves and transport them to neutral American slave colonies (*ibid*). This meant that the pirates were able to trade slaves without purchasing an expensive license from the EITC. This example is evidence of two key traits seen in the global black market of the 21st century. The first is a proclivity for trade to meet demand in spite of any negative impact on society. The second is humanity's persistent propensity to find and exploit weaknesses in economic regulatory systems. Today organised criminals and terrorists exhibit the same traits established centuries ago, only the acts are more complex in line with the intricate structure of the global economy (Cook & Smith, 2011; UNDOC, 2012; Findlay, 2008; Ridley, 2008; Irwin, Choo, & Liu, 2012).

Money laundering is a tool used specifically to evade tax and disguise the origins of criminally sourced funds (Reuter & Truman, 2004). There are many forms of highly profitable criminal activities that predicate money laundering. Such acts include scams, a myriad of cyber crimes, fraud, identity theft, racketeering, illicit drug and weapons trade, and human trafficking/sex slavery (APG, 2011; Sullivan & Smith, 2012). These acts undermine the stability of the global economy and have a significant negative impact on the lives of millions of people. Some of the impact is

realised as hardship, poverty, loss of life, damage to the environment, and corruption (APG, 2011; Moore, 2001; Sullivan & Smith, 2012).

Phishing scams are one of the lowest risk/high profit crimes in a large list of modern predicates to money laundering. Every year billions of dollars are lost to phishing scams (McCombie & Pieprzyk, 2010). Phishing is a form of identity theft that uses social engineering and fraud for financial gain. The act is very effective due to the low standard of internet user security awareness, and it is easy to carry out but hard to investigate and convict (Birk et al., 2007). Often a victim is sent an email that appears to be from a popular institution i.e. Facebook or a bank, suggesting that there is an error with their account. The victim invariably clicks a link in the email and they are taken to a fraudulent site that, to the untrained eye, looks legitimate. When the user types their login information on the site, their details are stolen and sent back to the perpetrator (Microsoft, 2012).

A study conducted by Irwin et al. (2012), found key differences between the money laundering practices of criminals and terrorists. The study analysed 146 standard money laundering and 38 terrorism financing typologies. The results of stage one of the study suggests that criminals and terrorists have different preferences for laundering techniques, and that using more techniques within the layering, placement, and integration model (Choo, 2008), increases the amount of funds that are successfully laundered. The study also found that, unlike standard criminals, terrorists prefer to use only a few techniques which ensure high levels of anonymity. Moreover, the denomination of funds layered into financial systems were generally lower than the ‘spending statute’ (Walters et al., 2011), threshold of \$10,000 (Irwin et al., 2011). One of the most important findings within the study was that the amount of money laundered by criminals and terrorists was significantly different. Where the average maximum across the 146 standard money laundering typologies was AUD \$65.8 million, only a AUD \$4.8 million average maximum was found in terrorism financing cases across the 38 typologies. These figures have important implications for the progression of the Australian and international anti-money laundering regime.

The profits derived from predicate crimes are dirty and are easily traced by law enforcement to their criminal sources. So in order to disguise dirty money as having a legitimate origin, the standard *modus operandi* is to take a series of three sequential steps known as Placement, Layering, and Integration (Levi & Reuter, 2006). This process enables organised criminals to use their illegitimate funds in the regulated economy, without fear of detection. This is the fundamental motivation for laundering money (Choo, 2008; Irwin et al, 2012; Levi & Reuter, 2006).

2.4.1 Money Laundering in Three Sequential Stages

Figure 8. Stages of Money Laundering

Stages of Money Laundering	
Placement	Introduction of funds or asset to legitimate financial system.
Layering	Distancing funds or asset from source origin, whether criminal or legitimate.
Integration	Change of funds into legitimate income via standard business or fiscal enterprise.

Fig 8. (Choo, 2008; Irwin et al., 2012; Levi & Reuter, 2006)

There are three sequential steps taken to launder illegally sourced funds and assets (Figure eight). The first stage is the point where the funds or assets are placed into the global economy. It is important to note that in the case of terrorism financing, the assets or funds may be from a legitimate source (Levi & Reuter, 2004). One example of layering with funds may be to purchase Stored Value Cards (SVC's) from multiple businesses online or via fax. There are many merchants who provide this service and do not require face to face contact or provision of valid identification to make a large purchase of SVC's (Choo, 2008). Placement of an asset, such as a boat or car, could be achieved simply and without identification via one of the many online private auction sites such as eBay, if sold for under AUD \$10,000 (Cook & Smith, 2010).

To distance the funds from the origin, certain Stored Value Cards can be used overseas and are promptly sent for retrieval at an ATM in another country. If this is not possible then the SVC's can be used to purchase popular goods and repackaged, then sold domestically or sent overseas for resale (Choo, 2008; Irwin et al., 2012). Integration is carried out differently by organised criminals as opposed to terrorists. Criminals will seek to further legitimise and profit from their money by investing in ordinary and legitimate enterprise or financial operations. On the other hand, a terrorist organisation will simply distribute their funds as required to continue their operations (Reuter & Truman, 2004).

2.6 ALTERNATIVE REMITTANCE SYSTEMS

Networked systems of remittance that operate on the grounds of familial relationships and trust have been operating for centuries (Cook & Smith, 2011). Since the September 11 attacks in 2001, these informal remittance and value transfer systems have been a prime target for regulatory intervention as a part of the global anti-money laundering regime (Cook & Smith, 2010). Since then the regulated offspring of IVTS has been considered to be an 'alternative' to formal financial systems, hence the term 'Alternative Remittance System' (ARS). However ARS is a 'first-world centric' description for systems that have existed and operated for many years before the birth of formal economic systems (Rees, 2011).

Figure 9. ARS International Network 1 (Cash Pool)

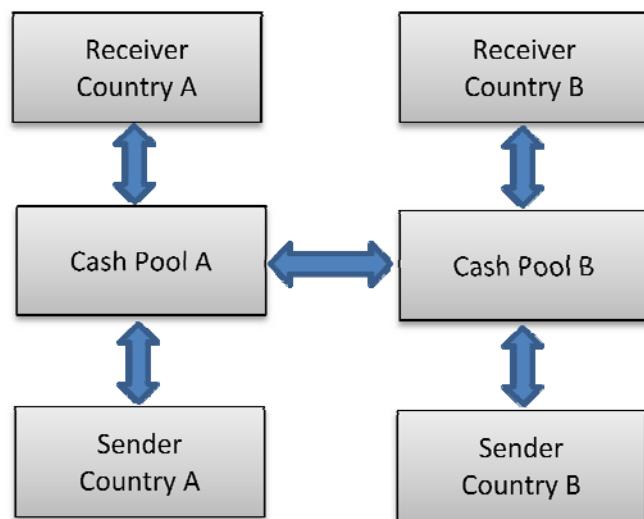


Fig 9. (Keene, 2007)

Figure 10. International ARS Network 2 (Direct)

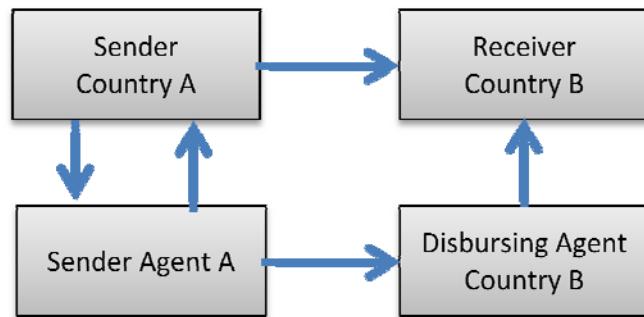


Fig 10. (Keene, 2007)

Figure 11. International ARS Network 3 (Bank and Direct)

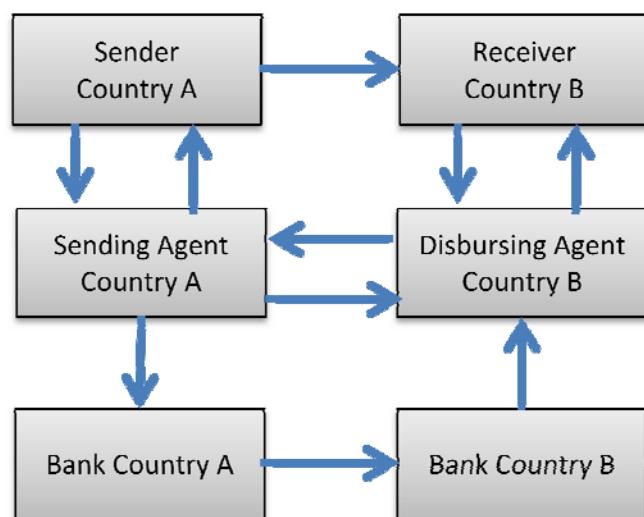


Fig 11. (Keene, 2007)

Common operational structures can be identified easily in ARS businesses, some of which can use multiple banks as intermediaries or cash pools to settle informal debts (Figures nine, ten & eleven).

Alternative remittance systems exist in many different forms however all share a common structure with each other, which varies in complexity (Keene, 2007). The standard operating procedure of an alternative remittance system is a transaction between a sender in Country A and a receiver Country B. The sender in Country A contacts the ARS agent and takes payment which includes a small fee. In a regulated agency information is recorded about the sender and receiver, and identification is sighted and recorded as part of the transfer process. A code is then given to the sender who communicates it to the receiver. Meanwhile, sending agent A contacts the disbursing agent in Country B, who in turn alerts the receiver regarding the funds to pick up. In some cases the funds can also be delivered (Cook & Smith, 2010; Keene, 2007; Maimbo & Passas, 2003). The key characteristic of informal and alternative remittance systems, is that daily operations require no physical transfer of funds. Instead an informal debt is recorded between transfer agents and is settled at regular intervals. This can be done through cash payments through a courier, postal orders, cheques, wire transfers, and bank transfers (Keene, 2007; Passas, 1999; Rees, 2010).

Other methods include trade settlement through the purchase of precious stones, gold, or other valuable assets (Walters et al., 2011). ARS agents generally have bank accounts in central locations to reduce transfer costs. Popular sites for IVTS funds consolidation include Dubai, New York, London, Hong Kong, and Singapore (Passas, 2003; Perkel, 2004). The legality of these processes depends on the country in which the transfer systems are operating; these processes are not used exclusively by illegal IVTS systems (Walters et al. 2011; Rees, 2010).

The regulation of alternative remittance systems is a task which is balanced on a knife's edge. This challenge is embodied by the need to impose strict control of monetary flow to maintain security, and the necessity to allow flexibility to enable the legitimate existence of semi-formal systems which allows progression and growth throughout the global economy (Jensen & Png, 2011). This is a common theme which characterises the greater majority of modern security issues in which responses often restrict societal freedoms at times of crisis to maintain security (Soma et al., 2004). The regulation of informal systems has not preceded the end to security issues within the ARS community. The effort to balance security and operational flexibility when regulating the remittances sector has left in its wake significant weaknesses. These are flaws which continue to be exploited by organised criminals and terrorists worldwide (Cook & Smith, 2010; 2011; 2011a).

2.6.1 International Exploitation of ARS

The informal nature of ARS and their networks leaves them open to exploitation from within and without. There are many cases of innocent and unaware people responding to a Phishing email, sending money through a system like Western Union on instruction and never hearing from that international contact again. For example in 2010 one case of scamming through ARS exploitation involved organised criminal groups sending phished funds out of Australia to an intermediary in Africa. That person would then use Western Union and MoneyGram agencies to transfer the money on to a Russian crime gang minus a fee (McCombie & Pieprzyk, 2010). ARS transfers are difficult to track and are almost impossible to link to a receiver, especially in countries where regulations do not require agencies to record and keep validated information on their customers.

The Ussama El-Kurd case highlights alternate remittance exploitation from within a business. This incident involved a money exchange franchise operating in the UK called Bureaux de Change. According to Kochan (2005), Ussama El-Kurd was convicted of laundering approximately £70 million of dirty money as a Bureaux de Change franchisee. Investigator's who gathered evidence, later used to convict Mr El-Kurd, found that Ussama's well oiled laundering business managed to convince banks to convert the money for easier transfer because he understood his business. By informing the Banks, when questioned, that he was converting funds for a large number of exchange agencies, Ussama's couriers were able to avoid any unwanted suspicion. Mr El-Kurd's share of the money that he converted and transferred was 3.5% or approximately £3.5 million (Kochan, 2005 p.228). The laundering and transferral of illegitimate gains can be an enticing proposition, when a simple process can produce extraordinary results (Rees, 2010 p.51-58).

Some of the largest and most at-risk alternative remittance systems are entirely online. The online auction site and payment system eBay/PayPal exists as one of the world's largest transnational informal sales platforms. It can be classified as an alternate remittance system because the PayPal arm of the eBay Corporation operates partially outside formal financial systems of control (Cook & Smith, 2010). According to their 2011 annual report, eBay has over 100 million registered regular users from almost every country in the world (eBay, 2011). The informal aspect of the PayPal system means that any user can set up an account, and sell an item for up to US or AUD \$9,999 on eBay, without the need for validation of primary identification (AIC, 2009; Australia, 2012). Furthermore, there is no way to determine whether goods are sent or received. Nor is there any way to validate the authenticity of an items' description in comparison to what is sent, if at all (Daily Mail, 2006). The nature of the eBay/PayPal sale process effectively renders every user a private remittance operator (eBay, 2011; Cook & Smith, 2011). This represents a major loophole in the attempt to regulate online auction and payment systems. For example, if a terror organisation lists an imaginary item on eBay from Australia at AUD\$9,500, and a counterpart in Pakistan was organised to purchase the item, then the illegitimate transaction is covered by a seemingly legitimate auction (Daily Mail, 2006). This process would not require any item to be sent, the money would arrive without arousing suspicion, and in the same way a similar process would bring funds into Australia. The threat posed by this issue has largely been ignored due to the enormity of the system and the task at hand (Cook & Smith, 2010).

Figure 12. Abuse of Hawala or Hundi System into India

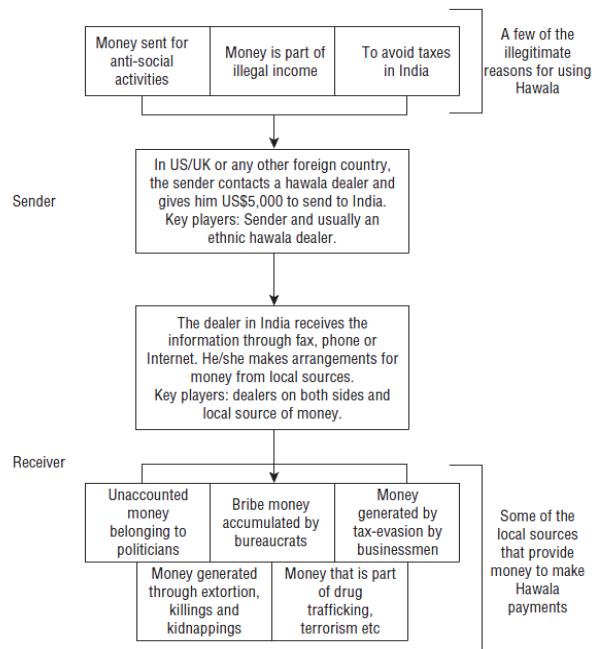


Fig 12. (Sharma, 2006)

The criminal use of informal systems is just one part of the threat posed by unregulated systems (see Figure 12). The threat of terrorism is also enabled by Hawala and Hundi agents that are unaware or willingly facilitate the laundering of illicit funds (Passas, 1999; 2003). International cases of abuse in Hawala and Hundi systems are abundant and well documented. In one international case a Pakistani national, referred to as Mr. X, living in Canada pleaded guilty to conspiring to launder money. The accused operated an unregulated Hawala business in Montreal, Canada which made regular international transfers through a network of people and businesses outside of the formal economy. A witness cooperating with authorities contacted Mr. X posing as a criminal involved in high level transnational crime, including drug trafficking and counterfeit cigarettes. Under instruction the witness professed a desire to use Mr. X and his Hawala business to transfer the proceeds of drug trafficking to support these criminal acts. As a result, between 2004 and 2005 Mr. X and a co-defendant Mr. Y made 10 transactions, laundering a total of USD \$828,000 (MONEYVAL & FATF/OECD, 2010).

In 2011, a US money laundering case involved the exploitation of Western Union by the former Mayor of a town called Nogales in Arizona. Ex-Mayor Octavio Garcia Von Borstel set up a company called Legalizaciones to cash cheques and acquire Western Union money orders free of charge through his father's remittance business, called Western Cash Express (Smith, 2011). In total the ex-mayor and his father, Octavio Garcia Suarez, defrauded Western Union of USD \$618,000. Western Union became aware of a discrepancy and carried out an investigation which found evidence of money laundering. Western Union took action to recover losses and subsequently won a civil law suit against the father and son. Law enforcement were informed and as a result Von Borstel was convicted and sentenced to three and a half years in prison with seven years probation, and his father received two years prison with seven years probation (Smith, 2011).

2.6.2 ARS in Australia

Australia's ARS community is diverse and supports many ethnic communities by providing easy access to low cost international money transfers. According to David Rees (2010), there are five major ethnic communities in Australia which rely heavily on ARS to send money home and abroad. These are the Filipino, Somali, Indian, Vietnamese, and Samoan communities. The most prevalent areas for ARS business supporting these communities are Sydney and Melbourne, with modest numbers of ARS agencies in Queensland, South Australia and Western Australia (*ibid*). A survey of 395 international students in Australia also found evidence to suggest that there is a prevalent South Asian community that makes regular use of informal and alternative remittances (Cook & Smith, 2011 a). The study also supports David Rees (2010), in the claim that the primary reasons behind the level of expatriate reliance on alternative remittances in Australia are due to issues of trust and familial ties (Cook & Smith, 2011 a; Rees, 2010).

Figure 13. Remitters Registered with AUSTRAC as of June 2011

Financial Year (Aus)	2008–09	2009–10	2010–11
Registered Remitters	5401	6,117	6,927
Change from previous year (%)	109%	13%	13%

Fig 13. (AUSTRAC, 2011 h)

There is a steady increase in the number remitters registered with AUSTRAC as of June 30th, 2011 (Figure 13). AUSTRAC recognises that Australia's remittance community is changing rapidly (AUSTRAC, 2011 h). The number of registered remitters doubled in the 2008-09 financial year from approximately 2450 to 5410, a 109% increase. Since then each year has seen remittance business increase by 13%, coming to 6,927 by the end of June 2011 (*ibid*).

The Australian ARS community is characterised as dynamic, with very few barriers to entry and exit from the sector (AUSTRAC, 2011 h). The industry is highly progressive, and AUSTRAC witnesses regular transfers of ownership and the frequent addition of new agents in Australia's principal ARS networks (*ibid*). This unique business community is dominated by Western Union (WU) and its affiliation with Australia Post (Post, 2012; 2012 a). There are approximately 5000 WU agencies in Australia (Western Union, 2010), and approximately 3,200 of them are Australia post outlets that provide Western Union remittance services (Post, 2012 c). The remaining WU outlets (an estimated 1,800) exist as third party remittance providers in local convenience, money exchange, fast food stalls, and grocery stores (Cook & Smith, 2010 p.21). Over and above the 6,527 ARS agencies which are affiliates of larger international networks, an estimated 400 small money remittance agencies serve specific ethnic communities around Australia (AUSTRAC, 2011 g p.17).

Figure 14. Australian ARS Businesses by Category

Remittance Service Categories	Remittance Characteristics and Brand Examples
Formal Transfer Focussed	<ul style="list-style-type: none"> • No secondary business goals. • Transfers only to specific countries. • (i.e. iRemit)
Semi-formal	<ul style="list-style-type: none"> • Transfers may be secondary to main business. • Transfers to many different countries. • Provides online services. • Operates out of a shop front. • Advertises to the public. • (i.e. WU, PayPal, MoneyGram, Ez Money Express and UAE Exchange).
Covert Non-Aligned	<ul style="list-style-type: none"> • Operates out of an unlikely premise (i.e. Taxi, Restaurant, Butcher, Ethnic Video Store, and Private Residence). • Not Brand Affiliated. • Relies on word of mouth and familial networks instead of advertising. • Hawala, Hundi, and Black Market Peso style operations.

Fig 14. (Based on extensive literature review)

A review of the literature on remittance business has revealed three common categories of remittance service providers. As outlined in Figure 14, remittance businesses can be categorised as Formal Transfer Focussed, Semi-formal, and Covert Non-Aligned remitters. A formal transfer focussed remitter has no secondary financial imperative within the business and in some cases will only transfer to specific countries as their primary service is aimed at a specific expatriate community. An Australian example of this type of remittance agency is the Philippine transfer agency known as iRemit (2011).

A semi-formal ARS agency is likely to provide transfer services as a secondary feature next to the main economic imperative of the business, especially in shop-front businesses. For example, common primary services surrounding semi-formal remitters in Australia include news-agencies, chemists, convenience stores, fast food stalls, and post offices. This category of remitter may be an entirely online service provider, will advertise to the wider public, and generally supports transfers to a large number of countries. Branded semi-formal remittance businesses prevalent in the Australian ARS sector include Western Union, PayPal, MoneyGram, Ez Money Express, and UAE Exchange (Western Union, 2010; MoneyGram, 2012; PayPal, 2012; Post, 2012 c; Ez Money Express, 2012; UAE Exchange Australia, 2012).

A covert non-aligned money transfer operation is an underground and unregulated remittance business. This category of remitter will often operate out of unlikely premises such as a taxi, restaurant, butcher, ethnic video store, or a private residence. These remitters are not brand affiliated and will not advertise their business openly; instead agents rely on word of mouth and familial networks to build their client base. A covert non-aligned remittance agent could also be called an ‘underground banker’ (Borgers, 2009), and would likely structure their business on the Hawala, Hundi, or Black Market Peso style IVTS (Bunt, 2008; Passas, 1999; 2003; 2006; Perkel, 2004; Sharma, 2006).

The threat of money laundering through Australia’s ARS sector is well known to Australia’s anti-money laundering regulator AUSTRAC. Money laundering is held

by Australia's national security and law enforcement agencies to be one of three 'critical' organised crime threats (National Organised Crime Threat Assessment, 2010; 2011; cited by AUSTRAC, 2011 g p.5). The threat is hard to quantify due to the unquantified nature of criminal activity, but estimates have been made. According to Choo (2008, p.3), approximately AUD \$2-4 billion is laundered through the Australian economy annually. What can be quantified with a little more accuracy is the cost of money laundering, which is estimated to be AUD \$10-15 billion every year (AUSTRAC, 2011 g p.2). Moreover in the year leading up to the end of the 2011, Australia's registered ARS agencies supplied international funds transfer instruction reports which totalled AUD \$8.5 billion (*ibid* p.17). Therefore it is clear that the significance of effective regulation and support to attain compliance in this sector is of paramount importance to Australia's national security.

2.6.3 The impact of Australia's Anti-Money Laundering Regulations on ARS Business

The regulatory requirements applied by Australia's anti-money laundering system to the money transfer sector are significant. Major factors include time, cost, and knowledge/understanding. Remittance agents must meet extensive reporting requirements; including international funds transfer instruction reports, SUSTR's (AUSTRAC, 2011 h), annual compliance reports (AUSTRAC, 2011 f), and Significant Cash Transfer Reports (SCTR's) (Australia, 2012).

The impact of lost time is also applicable to the overall cost of anti-money laundering compliance for ARS agencies. According to AUSTRAC (2012 d), the overall cost of regulatory processes and action is AUD \$32.3 million. The supervisory levy set out for 2012-13 is based on the total operational cost of AUSTRAC. Under this legislation ARS agencies pay a base component fee of \$300 annually and \$0.01 per reported transaction (*ibid*). Include with this fee the time spent reporting, carrying out risk management processes, training staff, the cost of increased labour hours and the negative impact on income as a result of reduced time spent with customers. All of these factors would have an impact on the profitability of an ARS business which could lead to non-compliance or failure of the business.

The requirement for knowledge refers to the pressure applied to ARS businesses to create, implement, and maintain an effective risk management portfolio in their business. This requirement is by far the most demanding of AML/CTF obligations due to the complexity of risk management in general. According to Joy Geary (2009), one of the major issues with non-financial Regulated Entities attempting to implement effective AML/CTF risk management in their businesses is a lack of historical sources. Information required to make an accurate risk assessment include; national threat assessment reports, typology reports from relevant NGO's and financial intelligence units (i.e. FATF, AUSTRAC, Egmont etc.), associated industry reports, and external consultation at significant cost (Geary, 2009). This type of information would be very difficult and time consuming to access, and would require a greater understanding of the issues surrounding money laundering in non-core financial businesses. As a result it is highly unlikely that a kebab shop owner or a local news agent would spend the money or time necessary to make an accurate, or indeed progressively reviewed, risk assessment.

2.6.4 Exploitation of ARS in Australia

The exploitation of remittance businesses is a global norm and Australia's money transfer businesses have not been ignored in this trend. Every year an estimated AUD \$2-4 billion is laundered through Australia's financial sector (Choo, 2008). It is also estimated by Masciandaro et al. (2007 p.200), that money launderers generally take a 5 to 15% cut of the funds that they launder. While these figures are just estimates, it is well known that organised criminality is persistent due to the highly profitable nature of the black market (UNDOC, 2012).

A report on money transfer agencies which are suspected of profiting from human trafficking was published on August 12th, 2012. One of the six suspected agencies is an Afghan convenience store, known as the 'Alamadar Superstore', which provides money transfer services to a local community of Afghani migrants. According to Stewart & Maley (2012), AFP investigators believe the Alamadar money transfer service is linked to a convicted human trafficker known as Haji Sakhi. This people smuggler, also known as Zamin Ali, was part of an earlier criminal group which organised and dispatched a large number of unseaworthy boats of asylum seekers to Australia from the late 1990's to the early 2000's. The police believe the three owners of the Alamadar remittance agency are relatives of Sakhi, and are profiting from commissions on funds paid to facilitate a surge of boats arriving in Australia (*ibid*).

Furthermore the same report highlights similar suspicion in another of the six money transfer agencies under scrutiny, called the Parwaz Travel and Money Exchange. This remittance business operates out of a store on the same street as the Alamadar business (Stewart & Maley, 2012). Similar to the Alamadar case, the owner Inayatullah Nauroze is the son of a convicted human trafficker, known as Nauroze Ali or Haji Nauroze, who now works in his sons business. Last year Haji's exchange business in Pakistan was shut down by authorities as part of enforcement action to halt human trafficking activity. In this case the AFP suspects Inayatullah of organising a network of Hawala agents to launder and facilitate the transfer of funds to bankroll passage by boat into Australia (*ibid*). These cases highlight suspected trends linking remittance agencies with organised criminal activity.

Another case in Australia found two directors of a money exchange business guilty on multiple counts of money laundering (AAP, 2007). Azeez Ansari and Haja Ansari managed a remittance business called 'Exchange Point'. The currency exchange was investigated by a joint law enforcement group of five agencies which included the Australian Federal Police and AUSTRAC. The Exchange Point business incorporated a money transfer service and had many contacts in its global network, with a significant number of them in Singapore. The investigation found that the currency exchange had received over AUD \$2.5 million to be layered into specific Australian bank accounts in amounts less than \$10,000. A cash pool was also set up with money provided by Australians which was used to allow access to cash internationally for the fund stakeholders. This was facilitated by phone calls, no records were made, and no funds left Australia. At the conclusion of their trial and an appeal, the Ansaris' received prison sentences for a multitude of money laundering offences (*ibid*)

A Joint Task Force code-named ‘Gordian’ was established in May 2005 (AUSTRAC, 2011 h). This group was tasked with investigating the key configurations and networks used by organised criminals to launder money, evade tax, and finance their activities. The method used to disengage criminal networks was to target accountants, money remitters and the financial service providers assisting the various criminal entities. The task force investigation concluded having disrupted 16 criminal syndicates and charged 73 people with money laundering and drug offences. This included charges against seven main suspects for conspiring to launder AUD \$93 million. The laundering of the funds was intended to be achieved through money transfer businesses, partially to international destinations. In addition, three suspects were sentenced in 2009 to imprisonment of up to 10 years for money laundering and drug trafficking (*ibid*).

The abuse of Australia’s remittance sector is wide spread. This is supported by a media release from AUSTRAC in 2012, which highlights five separate enforcement actions due to non-compliance in money transfer businesses (2012 b). The continuance of this trend is also supported by evidence of organised crime groups targeting the alternative remittance sector in Australia to launder money. According to AUSTRAC (2011 g), enforcement authorities have detected criminal groups which are targeting money remittance agencies to launder the proceeds of crime. Sources of the laundered funds, cited by AUSTRAC (2011 g), include: “...tax fraud, drug trafficking, tobacco smuggling, people smuggling, and advance fee fraud (such as ‘Nigerian’ scams)” (p.17). As a result Australia’s alternative remittance sector is at significant risk of criminal exploitation on an ongoing basis, and cases of non-compliance with AML/CTF regulations and criminal exploitation are likely to continue to be discovered.

CHAPTER THREE: THEORETICAL FRAMEWORK

3.1 INTRODUCTION

This chapter outlines how the research was structured in terms of the methodological approach to data collection. It also outlines the research based framework that provided the focus and direction for the study. The chapter also discusses details of the data analysis process used to answer the principal and supporting questions.

3.2 QUANTITATIVE/QUALITATIVE APPROACH

This research project made use of a mixed-methods approach as the most appropriate way to provide a suitable framework for data sets collected in this study. This in turn enabled effective analysis of the results, and provided for in-depth discussion and conclusions derived from the research data. This study used quantitative and qualitative research methods.

Quantitative researchers seek to test impartial hypotheses through an examination of the link between variables. This approach to research gives emphasis to precise data directed at quantifiable facts, represented in numerical and statistical format (Creswell, 2009). In other words, quantitative research is built on a perception of the world in which all experiences and events are observable and discernible facts (*ibid*).

In contrast, the standard operating procedure for qualitative researchers is to use the collection process as a means to understand observable facts within a contextually precise setting (i.e. real world observation) (Creswell, 2009). Qualitative research is generally conducted in a natural setting in order to make sense of the contextual significance of observable phenomena openly, without the aid of statistical analysis (*ibid*).

This study uses both quantitative and qualitative methods in order to draw on the strengths of both approaches while reducing the weaknesses associated with mono-method research (Johnson & Onwuegbuzie, 2004). A mixed method approach is applied in this research as a number of businesses enquiries analysed using both methods, and a set of quantitatively analysed international transactions.

3.2.1 Study Analysis

Analysis of research data was captured through a number of vectors. For both quantitative and qualitative analysis, data was compiled into charts. The qualitative data retrieved from phase one was directly represented in a simple flow chart, detailing a visual progression of the eight barriers to anti-money laundering compliance in ARS agencies. A mixed methods approach was used in phase two. Data sets were extracted and collated into separate charts. Quantitative data points collected in phase two were represented in charts in percentile form, which allowed in-depth discussion on the state of legislative adherence in ARS agencies. Phase three data results are extracted through observational analysis of international transaction sheets.

3.3 RESEARCH ORIGINS AND FOCUS

This research provides a unique insight to the standard of legislative adherence in Australian ARS agencies. Prior research found that the practice of informal remittances persists despite the illegality of such systems under anti-money laundering legislation. Furthermore, the ongoing use of informal (illegal) remittance services is motivated by a culturally-based lack of trust in formal banking systems, rather than a desire for criminal gain (Cook & Smith, 2011 a). In this context there may be other factors (outside of legal adherence) that explain the practice of transferring money through informal remittance services. The practice of ARS transfers exposes a problem in Australia's regulatory system, which operates in a formal 'Western' manner. As a result fails to address the key factors which may influence the choice of money transfer system within the community. Therefore it is assumed that if culturally sensitive changes are made to Australia's regulation of the ARS sector, then the persistence of high risk unregulated remittance activity will diminish.

The results of the research analysed in chapters five and six, provide evidence to support the need for greater cultural awareness, rather than stronger regulation in the ARS sector. This research reveals non-compliance in the ARS industry, propagated by the existence of eight significant barriers to compliance for remittance providers, which range from cultural, environmental, and trust based networks, to commercial and regulatory opportunism.

3.4 CONCLUSION

This chapter outlined the theoretical framework used to support the research materials and methods. In order to answer the principal question behind this study a mixed methods approach was taken. Quantitative data was collected from business inquiries and international transactions to discern a level of legislative adherence in ARS agencies. With qualitative data collated through an extensive literature review informing the existence of eight significant barriers to anti-money laundering compliance in ARS. The use of mixed methods in this study is intended to increase the strength and validity of its results. The research based origins of this study have led to a focus on the ARS sector, and the need for greater cultural awareness in its regulation, due to issues in the context of legislative adherence, and the barriers to regulatory compliance.

CHAPTER FOUR: MATERIALS AND METHODS

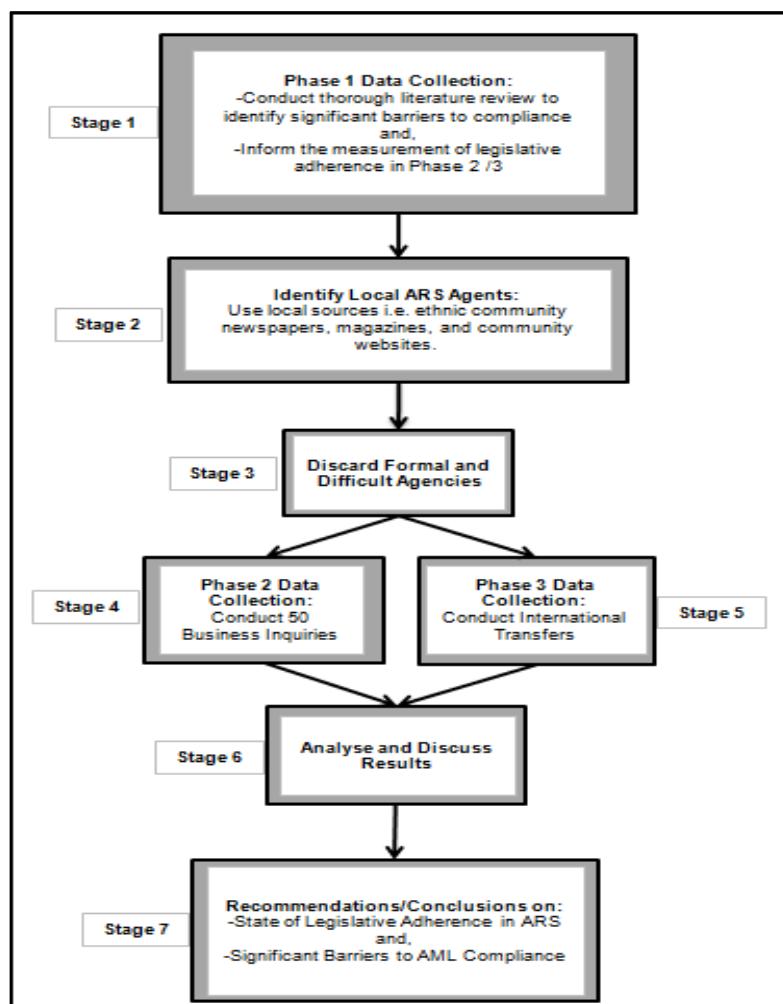
4.1 INTRODUCTION

The purpose of this chapter is to outline the materials and methods used to effectively answer the principal and supporting research questions posed in this study. In order to achieve this goal a seven stage method was used which includes three distinct data collection phases. This chapter will discuss in detail the three phases of data collection engaged by this project, the reliability and validity of the research, and outline details of the ethical clearance granted to this research project.

4.2 RESEARCH DESIGN

This project was modelled in seven stages in order to effectively collect and analyse the research data (see Figure 15). The three stages consisted of an extensive literature review (Phase 1), a series of business enquiries (Phase 2), and a set of international transactions (Phase 3). This research used a hybrid approach to data collection.

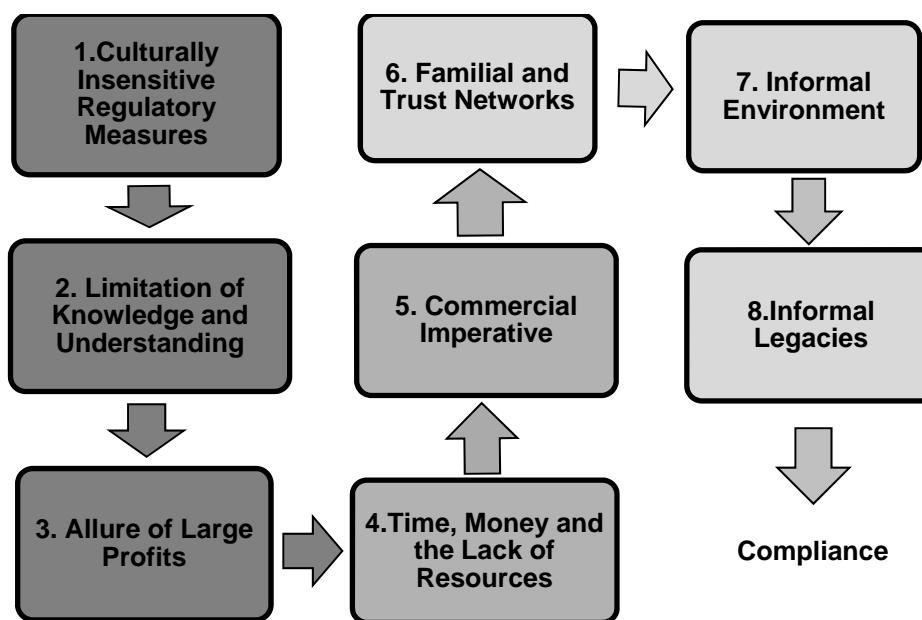
Figure 15. Research Procedure with Seven Stage Research Methodology



4.2.1 The Literature Review as Phase One

The first step in the research process was to gain a broad understanding of the literature in order to inform the design of the research project. For the purpose of this project, the literature review is classified as Phase One of the collection process. This is primarily because, in conjunction with prior research, the literature supports the existence of eight significant barriers to compliance for ARS agencies. This theory underpins the first supporting research question.

Figure 16. Eight Significant Barriers to Regulatory Compliance in ARS



The literature review draws from more than 100 sources, with the key authors being Nikos Passas (1999; 2003; 2006; Maimbo & Passas, 2005), Michael Levi (Levi & Gilmore, 2003; Levi & Reuter, 2006), and Peter Reuter (Reuter & Truman, 2004; Levi & Reuter, 2006). The secondary goal of the review was to build the foundation for measuring legislative adherence in alternative remittance systems. This was achieved by exploring and analysing Australian and international legislation, and the relevant literatures. A key publication for this study was *The Journal of Money Laundering Control*, which is archived in the Emerald database (Emerald-Insight, 2012).

4.2.2 Business Inquiries as Phase Two

Business inquiries were carried out by phone and email with the primary focus on the standard transfer practices that occurred in each ARS agency contacted. The first step in this process is outlined in Stage 2 of the research process chart (see Figure 15), which was to identify ARS agencies using local and online sources. Figure 16 depicts the range of local and online sources accessed to identify ARS businesses. Of a total of 88 Australian remittance providers who were originally identified, a total of 50 remittance providers were contacted, whilst a further 38 providers were discarded as being unreliable and difficult to authenticate. A total of six independent ARS businesses were found in community newspapers, the

remaining 13 were sourced online. Contact was made with 17 licensed Australia post offices (LPO's), and six franchised Australia post outlets. A further eight travel businesses were contacted (including the Flight Centre franchise), all of whom provide MoneyGram transfer services.

Figure 17. Local and Online Sources for Business Enquiries

Community Newspapers	Online Sources
Indian Link	Australia Post Office Locator
Oriental Post	Yellow Pages
Australia Asia Business Weekly	www.moneygram.com
Oriental Leisure & Living	Flight Centre Store Locator
Australian Migration Times	www.whitepages.com.au
Australian Chinese Times	www.truelocal.com.au
The Epoch Times Perth Edition	www.aussielocal.com.au

Calls and emails were made in an anonymous manner as a new customer would who has little knowledge of money transfers and their associated regulations. Phone contacts made up the majority of inquiries. There were 48 calls enabling extensive data from multiple agencies, which took place over a twenty one day period. Furthermore, emails were expected to demonstrate a lack of direct contact with staff, whilst delivering only a small amount of information in a relatively longer period of time (1-2 days). Thus although very few email contacts were made (2), the information gathered through phone contacts enabled a greater depth of observation and built the foundation for supporting question two.

Throughout the phase two collection process, the researcher was able to complete the majority of inquiries and record adequate detail on a pre-prepared call sheet, which prompted the researcher to ask the relevant questions (see Figure 18). The most effective opening to an inquiry was found to be a polite greeting followed by reference to a friend's advice, inferring that the contacted agency provides remittance services. Assuming an affirmative response, the researcher would then outline a need to transfer a friend some money, beginning with AUD \$300, to a destination in Asia. Certain transfer destinations were limited to specific countries, usually based on the ethnic background of each specific agency. The researcher would determine this aspect of the ARS service based on the context and details observed in the source (i.e. newspaper or website), prior to the inquiry.

If during the course of a contact phone call, the staff member cited no requirement for identification, the researcher would prompt the staff member with a general question. This inquiry was regarding any further requirements to successfully carry out a transfer. If this prompt resulted in a negative response, then the 'No ID required' box was checked. This method enabled the researcher to avoid directly raising the question of identification requirements in order to evade false positives in the data.

Figure 18. Business Inquiries Call Sheet

Phone Call Question/Answer Sheet		Sheet No.
Transfer Service Name: Brand:		
Source: Location:		
Intro:		
Hello I'm calling to find out about money transfers to and from		
Can you help me?		
Key Questions:		
1. How much does the transfer cost for: a. \$1000 S..... b. \$300 S.....		
2. What is the exchange rate? from AUD to		
3. How fast is the transfer?		
4. ID required? (If not stated use general prompting i.e. Do I need to bring anything?) a. No ID required <input type="checkbox"/> b. Video card ok? Yes/No c. If NO, Is a student ID ok? Yes/No d. If NO, What do I need?		
5. What does my friend need to collect the money?		
6. SKCState: <input type="checkbox"/> No ID <input type="checkbox"/> Confident/Incorrect <input type="checkbox"/> Unsure/Incorrect <input type="checkbox"/> Unsure/Correct <input type="checkbox"/> Confident/Correct		
Other Details:		

Any identifiable details recorded in relation to individual ARS businesses were intended as a guide for the researcher only, and have been withheld to satisfy the ethical and privacy concerns of this data collection. The call sheet was designed to record general details among specifics about international transfers (i.e. identification requirement, fees, and in some cases a maximum transfer rate was discussed), in order to enable the detection of any previously overlooked research vectors.

4.2.4 International Transactions as Phase Three

In phase three of the data collection the researcher processed six international transactions of varying amounts. The purpose of this phase was to see if customer identification standards extend beyond national borders. By testing remittance agencies with small value transactions it was possible to categorise areas of identification and user verification non-compliance based on country of destination, speed of transaction, and cost of transaction. Each transaction also established the customer record-taking practices of each remitting agency. Each agency was also characterised in terms of their practice of recording and supplying financial receipt information. The data collection also revealed information about the process of transfers by international remittance agencies which send money into Australia. More specifically, data was sought on identification standards both in Australia and in other countries. The collection captured information about the exchange rate, and the contact protocol for the receipt of monies (see Figure 19). A single transfer was made to Zimbabwe, three transfers were made through Kenya and Dubai, and a set of two transfers were made to and from Pakistan. Transfer records were returned via email.

Figure 19. Remittance Data Collection Record Sheet

Date: ...../...../2012 (dd/mm)	If Yes, what did you use: Drivers Licence: <input type="radio"/> Passport: <input checked="" type="radio"/>
<u>Please Circle:</u> Transfer or Receiving	Other:
<u>Transfer Agency Visited:</u>	<u>For transfers:</u>
Brand (if any):	Was a copy of your ID taken: No <input type="radio"/> Yes <input checked="" type="radio"/>
Shop Name:	Was a receipt given for the transaction: No <input type="radio"/> Yes <input checked="" type="radio"/>
Location:	<u>Please return a copy of the receipt with this question sheet.</u>
Basic description of services <u>other than transfers</u> provided:	Comments regarding your transfer or receiving experience:
<u>Transaction to Country:</u> .....	.....
Amount Transferred:	.....
Currency Type: AUD <input type="radio"/> Other: .....	.....
Cost of Transfer: Exchange Rate: .....	.....
Speed of Transfer: .....	.....
<u>Receiving from Country:</u> .....	.....
Amount Received: in AUD <input type="radio"/> Other: .....	.....
How were you contacted to pick up the transfer?	
Was photo ID required: No <input type="radio"/> Yes <input checked="" type="radio"/>	
If No, Did the agent take your details? No <input type="radio"/> Yes <input checked="" type="radio"/>	
What details were recorded:	

4.3 RELIABILITY, VALIDITY, AND ETHICAL CLEARANCE

This study was intended to examine a small sample of money transfer agencies and their legislative adherence in Australia's alternative remittance sector. The study is reliable and valid in the context of showing the results of a small number of remitters and their compliance trends in the ARS sector. This study is limited in external validity and as such there is a strong case for further research in this area to test the results of this study. In order to conduct this study the researcher posed as a customer trying to transfer money internationally. As a consequence, the researcher was required to obtain ethical clearance through the Edith Cowan University Human Research Ethics Committee (HREC), due to the legislation-focussed testing conducted in the research.

4.3.1 Deception and the need for Anonymity:

The data collected from remittance agencies included the prospect of obtaining data about staff and employees who may have allowed small value transactions without the full compliance with Australian legislative requirements in regards to identification. In order to proceed with the collection of this data, all enquiries and transactions have been undertaken as if the researcher was in fact an ordinary customer seeking to remit money to an international destination. This involved deception. Before any data collection was commenced ethics clearance was obtained to allow such data collection to take place under these conditions. All information was recorded according to the ethical guidelines set out and all information pertaining to individual remittance agencies has been maintained in an anonymous format. The ECU Human Research Ethics Committee (HREC) granted ethics for this research on the basis that it met the requirements of the *National Statement on Ethical Conduct in Human Research* (Government, 2007 a).

4.4 CONCLUSION

In conclusion this chapter has detailed the methods and materials used in the process of this research project. The seven stages (see Figure 15) of the project were discussed incorporating a three phase data collection process. The first phase covered the eight significant barriers to compliance in ARS businesses discovered by the literature review (phase one). The second phase outlined the system used to collect data from ARS agencies in order to determine a state of legislative adherence within money transfer businesses. The international transactions initiated in phase three were undertaken in order to gain a greater understanding of transfer services and the operations of ARS agencies which send money to and from Australia. Finally the reliability, validity and ethical clearance attained to conduct this study was discussed. This section held that the research carried out in this project should be viewed as a relatively small sample of indicative legislative adherence in the ARS sector only, and that there is a strong case for further research to test the results of this study. Ethical clearance was obtained from Edith Cowan University in order to conduct this research.

CHAPTER FIVE: RESULTS AND ANALYSIS

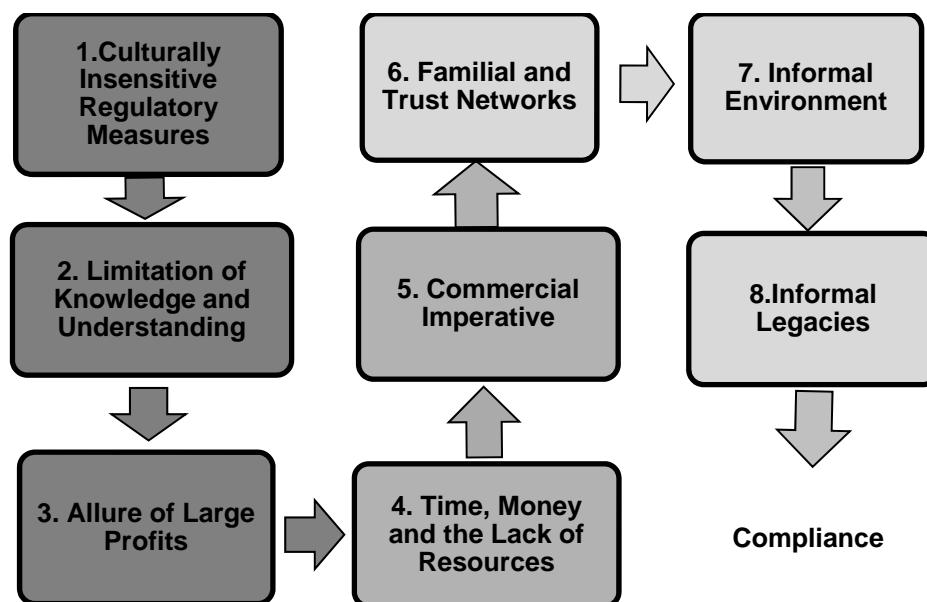
5.1 INTRODUCTION

Chapter five provides detail and analysis on the results of all three phases of data collection. Phase one results will cover data revealed by the literature review detailing the eight barriers to anti-money laundering compliance in Australian money transfers. Phase two outlines a description and analysis of results collated from the 50 business inquiries in order to answer the principal question. Phase three presents the data collected from six international transactions and provides analysis of the results. A summary of findings is also given at the conclusion of this chapter.

5.2 PHASE ONE – THE EIGHT BARRIERS TO REGULATORY COMPLIANCE

The literature review carried out in this project was intended to inform and support the measurement of legislative adherence in alternative remittance agencies. Upon completion of an extensive review of the literatures, the researcher developed a theory based on a well-developed understanding of alternative remittance systems. This understanding provided a platform for the categorisation of a number of significant barriers to anti-money laundering compliance.

Figure 20. Eight Significant Barriers to Regulatory Compliance in ARS



The eight barriers to AML/CTF compliance (see Figure 20) are based on observations made from a literature review of over 100 sources. All eight points are analysed and prioritised in terms of significance. This is done in reference to compliance within the context of the broader ARS sector, and the threat of exploitation to national security. The prioritisation of barriers is expressed in Figure 20 through shades of grey, with the darkest showing the greatest risk of exploitation. The lightest shaded barriers still represent significant barriers to compliance but are not as likely to greatly increase the risk of exploitation to launder money as a factor in the international ARS community.

5.2.1 First Barrier: Culturally Insensitive Regulatory Measures

The first and most significant barrier to AML/CTF compliance in the ARS industry is drawn from the lack of cultural awareness evident in the design of Australia's regulatory controls for alternative remittance services. After the attacks on the World Trade Centre in 2001, nine special recommendations were drawn up by the FATF to combat money laundering, which includes Special Recommendation VI. This recommendation states that;

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-GAFI, 2010)

The way in which these recommendations are enacted is up to each individual nation. In this context Australia's anti-money laundering regime, which is designed to meet FATF AML/CTF standards, has designed and implemented regulations for the ARS sector in a similar style to the US and UK (AIC, 2011). However despite the formal and strict nature of Australia's AML/CTF regulations on the operation of ARS services, the use of informal systems of remittance by ordinary Australian expatriates continues (Cook & Smith, 2011 a).

The use of informal Hawala and Hundi style services is pervasive (Passas, 2003; Maimbo & Passas, 2005; Cook & Smith, 2011 a). Studies have found that the general use of informal remittance systems is motivated by a cultural lack of trust in formal banking systems, rather than a desire for criminal gain (Hammond, 2011; Passas, 2003). In this context there is a reasonable explanation for operating an informal remittance service. This conclusion exposes the flaw in Australia's anti-money laundering framework, which has designed ARS regulations from a formal 'Western' perspective, and as a result fails to address this fundamental cultural impasse evident in the money transfer community. Furthermore the US style of alternative remittance regulation lacks validity due to a paucity of research on the effectiveness of compliance measures in the remittance sector (Passas, 2006). Therefore changes need to be made to Australia's regulation of the remittance sector. These alterations should be based on; consultation with the ARS community, an understanding of the impact of cultural factors associated with the traditional use of money transfer agencies, and academic research submissions relevant to issues in the Australian remittance sector. If this occurs then the persistence of high risk non-compliant remittance activity will likely diminish.

5.2.2 Second Barrier: Limitation of Knowledge and Understanding

The second most significant barrier to compliance is the standard of knowledge and understanding required of money transfer agents in order to comply with Australian AML/CTF legislation. Issues informing this barrier include; the complexity of risk management requirements, a lack of appropriate training and education, and a lack of understanding with regard to the threat posed by the risk of money laundering and terrorism financing.

Australia's AML/CTF regime requires that money transfer agents design, implement, and maintain a risk management portfolio as part of their everyday business. This requires that remittance agents develop a personal understanding of risk management or employ a consultant at significant cost to implement a risk management portfolio (Australia, 2012). Moreover all agents and their staff must be trained in effective customer due diligence (CDD) processes, detection of suspicious transactions and fake I.D., and compliance reporting requirements applicable to transactions over AUD \$10,000, including transactions to and from high risk countries (AUSTRAC, 2007, 2007 a, 2011, 2011 a). In order to aid agents in meeting this standard AUSTRAC has created a risk management guide for small-to-medium sized businesses (AUSTRAC, 2006), and set up a multi language help desk (AUSTRAC, 2011 a).

This barrier to compliance is a result of the complex nature of Australia's regulatory regime, which requires a high level of knowledge and understanding on behalf of alternative remittance agents. This is significant because remittance agents are unlikely to understand the threat posed by the risk of money laundering. This is due to the following factors:

- a) English is generally a second language for agents.
- b) Money transfer agents are unlikely to have a wealth of experience detecting indicators of money laundering and terrorism financing.
- c) The majority of remittance agents are small business owners who are unlikely to have taken a course in risk management.
- d) The effective design, implementation, and ongoing review of a risk management portfolio, requires greater understanding of the process than is afforded to an agent by reading a short guide.
- e) Training staff when the agent has a limited understanding of these concepts is unlikely to be effective.

Therefore if agents are unable to grasp the significance of the fundamental drivers behind the costly and time consuming risk management and training requirements, then they are unlikely to remain compliant with AML/CTF regulations. The pressure to perform may also be a sufficient motivator for an agent to operate an unregistered or underground transfer service.

5.2.3 Third Barrier: The Allure of Large Profits

The third major barrier to legislative compliance in money transfer agencies is the allure of large profits. Every year an estimated AUD \$2-4 billion is laundered through Australia's financial sector (Choo, 2008). It is also estimated by Masciandaro et al. (2007 p.200), that money launderers generally take a 5 to 15% cut of the funds that they launder. While these figures are just estimates, it is well

known that organised criminality is persistent due to the highly profitable nature of the black market (UNDOC, 2012). Therefore it is valid to infer that a transfer agent would make significantly more profit even if they were to take on a compartmentalised role in the laundering process.

A report published in August 2012 (Stewart & Maley, 2012) details a number of suspected cases involving Australian remittance agents supporting criminal activity to accrue large profits. This detailed an ongoing investigation into the funding of people smugglers through six remittance agencies in the Dandenong area of suburban Melbourne (Stewart & Maley, 2012). Although the Australian Federal Police (AFP) were not willing to comment specifically on the situation, the investigators did express concern that six independent Hawala style money transfer businesses were facilitating the funding of organised crime groups, involved in human trafficking by boat into Australia (*ibid*).

The significance of this trend is also supported by evidence of organised crime groups targeting the alternative remittance sector in Australia to launder money. According to AUSTRAC (2011 g), enforcement authorities have detected criminal groups which are targeting money remittance agencies to launder the proceeds of crime. Sources of the laundered funds, cited by AUSTRAC (2011 g), include: "...tax fraud, drug trafficking, tobacco smuggling, people smuggling, and advance fee fraud (such as 'Nigerian' scams)" (p.17). Based on the points and cases highlighted here, there is a valid trend supporting the significance of the allure of large profits as a major barrier to anti-money laundering compliance in Australian remittance agencies.

5.2.4 Fourth Barrier: Time, Money and the Lack of Resources

The Australian AML/CTF regulatory regime imposes a significant number of requirements on remittance agencies. This includes the implementation of a comprehensive risk management portfolio (Australia, 2012), ongoing training of staff, and an in depth understanding and knowledge of complex AML/CTF risk management concepts (AUSTRAC, 2006). On top of this money transfer agents must also have the ability to detect and deny suspicious transactions, which includes recognising fake identification (AUSTRAC, 2007, 2007 a, 2011, 2011 a). The complexity and cost associated with these requirements represent significant barriers to compliance for money transfer agencies, which are in general operated by everyday citizens who are unlikely to possess the necessary resources to uphold such a stringent and complex risk management regime.

The impact of time on a money transfer business is also an important factor if the remittance business is genuine in its attempts to have an accurate assessment of its risk. In order to achieve and maintain compliance, a significant amount of time can be spent reporting, carrying out risk management processes, training staff, and enduring its impact on profitability. All of these factors could lead to non-compliance or the failure of the business (in worst case scenarios). In addition there is a AUD \$300 supervisory levy fee collected by AUSTRAC, which includes a one cent fee per reported transaction, to recoup the cost of regulation (AUSTRAC, 2012 d). It is important to note that many remittance agencies are small businesses. Many of

which serve small ethnic communities, and are popular due to their low cost operations and the cultural and familial trust-based networks that they share with their customers (Cook & Smith, 2010; 2011 a). Therefore the compliance requirements imposed on these agencies are likely to act collectively as a substantial barrier to compliance.

5.2.5 Fifth Barrier: Commercial Imperative

The next major barrier to compliance in Australia's remittance sector is the prioritisation of commercial imperative over regulatory compliance. The emphasis of profit outcomes over best practice is a common trend across many customer service industries. This tendency is often characterised by the sacrifice of customer service standards in order to cut costs and improve profits. This can occur in many different forms within regular business, and it is not an illegal practice. However given the significant regulatory pressure on remittance agencies, it is likely that AML/CTF compliance would be sacrificed in order to improve the flow of business. This would likely be a choice made in an attempt to improve customer satisfaction by reducing processing time (i.e. waiving the need for full identification compliance), therefore increasing the popularity of the business and its profit margin.

5.2.6 Sixth Barrier: Familial and Trust Networks

Familial and trust networks play a significant role in alternative remittance systems (Hammond, 2011; Shehu, 2004; Maimbo, 2003; Cook & Smith, 2011 a). Multiple communities of South Asian and Middle Eastern people make regular use of informal remittance systems. This is because of a culturally based trust in IVTS and alternative remittance providers above formal financial systems (*ibid*). For expatriates of developing countries, the roots of distrust in formal financial systems stem partly from a persistent trend of instability and corruption throughout their countries history (Maimbo, 2003 p.37; Rees, 2010 p.15). This experience is a key influencing factor in the decision to use informal or alternative financial systems.

Furthermore, money transfer agencies exist in general as small businesses with single owners or franchisees. This means that an expatriate of any of the alternative remittance reliant Australian ethnic communities (i.e. Filipino, Somali, Indian, Vietnamese, and Samoan) (Rees, 2010), has the opportunity to develop a relationship with the transfer agent in order to garner trust. When compared to the nameless face behind a branded bank or financial institution which may change frequently, the factor of trust is significant (Cook & Smith, 2011 a).

However, the trust based relationship between agent and customer is also a substantial barrier to compliance. The familial and trust based relationship between money transfer agents and their customers stands as a motivator for complacency and non-compliance. This is because it is likely that once a customer is known to a money transfer agent, the heightened familiarity is likely to undermine AML/CTF regulations, especially in terms of identification requirements and suspicious transaction reporting. In simple terms an agent that is familiar and friendly with a customer is more likely to ignore identification procedure or disregard a suspicious transaction when dealing with that customer. Consequently a relationship of heightened trust and familiarity stands as a significant barrier to AML/CTF compliance.

5.2.7 Seventh Barrier: Informal Legacy

Remittance systems used by developing countries, (such as Hawala and Hundi), have been operating for over 100 years prior to the existence of the first formal banking systems (Buencamino & Gorbunov, 2002; Passas, 2003). Modern day nations in Africa, Asia, and throughout the Middle East, still rely heavily on ‘informal’ or, in a Western context, ‘alternative’ systems of remittance (Passas, 1999). Other factors which lead developing countries to rely on money transfer businesses include; access to financial services without the need for personal identification, access to low cost services not available in formal financial sectors, and the informal nature of transfer agencies allows customers to build a relationship of familiarity with a transfer agent (Maimbo & Passas, 2005; Rees, 2010). Therefore it is clear that the appeal of money transfer agencies is persistent globally because they allow grass roots, low income access to financial services which are culturally appropriate for their customers. Alternative remittance systems also allow developing, conflict ridden, and economically unstable countries to gain access to much needed funds when formal systems have failed (Maimbo, 2003; Razavy 2005).

As a result previously informal remittance agents may find it difficult to adjust to their new responsibilities. This means that the history of informal remittance may compromise the application of AML/CTF processes within a transfer agency. As a result an agent may be averse to any change in procedure, and may continue operating in an informal manner whilst ‘cooking the books’ on paper (Cook & Smith, 2010 p.16). This type of non-compliance has occurred in the past and was detected by AUSTRAC (AUSTRAC, 2012 a).

5.2.8 Eighth Barrier: The Informal Environment –

(Where Remittance businesses sell other goods as well)

The eighth barrier to compliance is focussed on the influence of an informal environment. This is where a business may transfer money, but may also be involved in the sale of other goods (e.g. Meat products, Fast food, Postal services, and even videos). This is likely to undermine the strict formality required under Australian AML/CTF regulations. The influence of an alternative remittance agent’s informal environment could reduce the adherence to regulatory procedures within money transfer agencies for a number of reasons. Firstly, alternative remittance agents typically operate a transfer service within their primary business. This means that their primary focus is may extend to unrelated business such as selling groceries, making kebabs, or even renting movies (Cook & Smith, 2010). Secondly, these small businesses are not likely to conduct their business activities in a formal manner, allowing other services to act as distractions to AML/CTF compliance. These factors are present in the majority of Australian remittance agencies which explains why the influence of this informal environment may lead to an informal approach to record keeping.

5.3 PHASE ONE: CONCLUSION

In conclusion, these eight barriers are moderated by the impact of the first barrier; Culturally Insensitive Regulatory Measures. The second, fourth, and fifth barriers are influenced by Australia's overly prescriptive anti-money laundering regulations. The remaining barriers are clearly amplified by cultural factors.

The significance of all eight barriers to compliance in the Australian AML/CTF system is apparent when seen from their aggregated effect upon remittance businesses. Whilst individually each barrier impacts upon compliance, as a package they represent a stronger obstruction. Firstly, the Australian anti-money laundering system has been designed absent of the cultural awareness necessary to effectively regulate the alternative remittance sector. In response to this changes need to be made to regulations. Secondly, money transfer agents face a significant barrier in terms of their limited understanding of what is necessary to achieve compliance under Australian law. Thirdly the money transfer sector is at a disadvantage from bureaucratic and criminal expectations, with the allure of criminal profits made more significant by overbearing and uninformed regulations. In the fourth instance, alternative remittance agencies lack the necessary resources to achieve compliance under AML/CTF regulations. As such the allure of unregulated operation is amplified; this represents a significant threat to Australia's national security. The fifth barrier to compliance highlights the influence of a money transfer agent's commercial imperative over the top of compliance, where the effective sale of primary services is likely to take precedence. The sixth barrier refers to customer trust relationships based around familiarity. The seventh barrier highlights the opportunity to side-step regulatory control by cooking the books. The eighth barrier challenges AML/CTF compliance through a shared focus on unrelated sales and services.

5.4 PHASE TWO RESULTS: BUSINESS INQUIRIES

The phase two data collection process consists of a total sample size of fifty business inquiries made to Australian remittance agencies ($n=50$). This data group provides answers to the principal research question. It achieves this by highlighting legislative adherence trends within the Australian remittance community.

Figure 21. Primary Photo Identification Standards

Valid Photo Identification in ARS Agencies				
National or international driver's license	Passport issued by the Commonwealth	International passport issued by foreign government or U.N.	National Proof of Age Card (Commonwealth issued)	National identity card issued by a foreign government or the U.N.

Fig 21. (AUSTRAC, 2007 b)

To ensure clarity about the segmentation of different identification requirements, Figure 21 indicates five types of primary photo identification in ARS agencies (AUSTRAC, 2007 b). These are; a national or international driver's license, an Australian passport, a passport issued by a foreign government or the United Nations, a proof of age card issued by the Commonwealth, or a national identity card issued by a foreign government or the United Nations (*ibid*). Any other

form of identification, such as a student card, is not considered valid and indicates non-compliance with Australia AML/CTF regulations.

Figure 22. Identification Requirements in ARS Agencies

Accepted ID	Australia Post LPO Western Union	Australia Post Franchised Western Union	Travel Business with MoneyGram	Independent Store-front Business	Total
Primary Photo I.D.	29.4%	33.3%	90%	52.6%	48%
Student I.D.	70.6%	66.6%	10%	31.5%	46%
No I.D.	0	0	0	15.7%	6%
Total	34 %	12%	16%	38 %	n=50

The ARS agencies contacted in this phase were organised into four categorical business types (see Figure 22). Australia Post outlets (which provide Western Union (WU) transfer services) exist in two forms, Licensed Post Offices (LPO's) and Franchised Offices. The other two groups into which the store-front ARS agencies have been categorised as; Travel Businesses which provide the MoneyGram brand of ARS service, and Independent Store-front Business's.

Data was aggregated against all four categories. Licensed post outlets accounted for 34% of the data, franchised post at 12%, and travel businesses at 16%. Independent store-front businesses represent 38% of the total data set (see Figure 23).

Figure 23. Spread of Data Sample

Data	Australia Post LPO Western Union	Australia Post Franchised Western Union	Travel Business with MoneyGram	Independent Store-front Business	Total
Total	34 %	12%	16%	38 %	n=50

5.4.1 Australia Post and Western Union

Australia Post is a Government Business Enterprise which is owned entirely by the Commonwealth of Australia (Post, 2012 a). Australia post provides over 100 vital official services through its 4,400 outlets, which includes 2,934 Licensed Post Offices (LPO's) and 29 franchised stores (ibid). These products and services include but are not limited to; providing complete passport and license application services, bill payment, travellers checks, foreign currency exchange, stationary, entertainment and educational media and software, commemorative collectables (Post, 2012), and international remittances through the globally recognised ARS, Western Union (Post, 2012 c).

Figure 24. Comparison of Franchised and LPO's

Franchised Post Office	Licensed Post Office (LPO)
Access to Management and Business Systems.	Access to Management and Business Systems.
Comprehensive training to be completed before agreement begins and on-going professional training and support.	All training of staff is mandatory and the responsibility of the owner.
10 year term with exit payment on expiration	License has no set term and can be assigned at any point.
Shared ongoing revenue.	Income dependent on fees and commissions relative to work performed.
Shared risks and benefits to both parties.	All risk is carried by the licensee.
-No capital outlay for fit-out or stock. -Fully equipped outlet with stock provided on consignment -Franchisee only pays running costs and rights fee to Aus Post.	Licensee pays fees for all start up and any maintenance.

Fig 24. (Post, 2012 b; 2012 d)

There are many differences between a Licensed Post Office and a franchised office (see Figure 24). An LPO manager is responsible for the comprehensive training of all staff (Post, 2012 d). Conversely a franchisee is provided with all training before the agreement is started and receives on-going professional training and support from Australia Post over its ten year term (Post, 2012 b).

A franchisee does not carry the financial burden or risk alone, and the manager need only pay base operating costs including labour and a franchise fee (Post, 2012 b). In contrast, LPO managers carry the entire burden of risk, cost of stock, labour, training, and on-going maintenance of the business (Post, 2012 d). Licensed Post Offices have a lower level of support to franchised post outlets and may show less compliance with anti-money laundering regulations in comparison to their franchised counterparts. However, an LPO is less controlled, easier to access, and has a much greater potential income, with less recurring fees (Post, 2012 b; 2012 d). This explains the influencing factors which have led to a larger LPO share of Australia Post offices at 2,934 compared to only 29 franchise stores (*ibid*).

5.4.2 A High Risk Combination: Australia Post and Western Union

The results reveal that 70.6% of licensed postal staff, and 66% of franchised Australia Post staff, expressed a willingness to accept student identification for an international transfer (see Figure 25). The comparatively high rate of non-compliance in franchised offices highlights an issue beyond the commercial structure of Australia Post outlets. Where the literature and data indicates a more developed training culture for franchised post offices, the small difference between franchised and licensed post offices suggests that ongoing training alone is an insufficient explanation for high levels of identification systems decay.

Figure 25. Identification Standards in Australia Post Offices

Accepted ID	Australia Post LPO Western Union	Australia Post Franchised Western Union
Primary Photo I.D.	29.4%	33.3%
Student I.D.	70.6%	66.6%
No I.D.	0	0
Total	34 %	12%

Almost all Australia Post outlets (3,200) are Western Union remittance providers (Post, 2012 c). As at 2012, approximately 2.4 million identification checks have been processed through Australia Post retail outlets (Post, 2012 a). Given that so many outlets are registered remitters, and so many identification checks have taken place, it may be that authorities assume that the Western Union services in these stores are at low risk of exploitation. Furthermore post offices are significantly exposed to the second, fourth, fifth, and eighth barriers to compliance (Limitation of Knowledge and Understanding, Limited Time/Money and Resources, Commercial Imperative, and Informal Environment). This exposure is partially due to the significant number of services these stores provide. Australia post employees are required to understand the correct procedure for over 100 different services, as well as ensuring compliance to AML/CTF obligations in the operation of their Western Union transfer service. The knowledge and understanding required to effectively provide Australia Post services represents substantial regulatory commitment. When the added AML/CTF requirements for WU transfers are taken into account this obligation implies a greater sense of responsibility.

In conclusion, the threat of money laundering through the Western Union systems attached to Australia Post Offices is high, with over 70% of LPO's and 66% of franchise staff expressing a willingness to accept student identification. The lack of compliance in Australia Post offices is likely due to four factors. These factors are;

- a. Poor staff training standards (Barriers 2 & 4).
- b. Limited knowledge and understanding (Barrier 2).
- c. Prioritisation of commercial imperative (Barrier 5).
- d. Informal environment (Barrier 8).

The results of this research show that the profit and accessibility focussed design applied to the LPO system has bred a significant trend of AML/CTF non-compliance. However the seemingly strong framework of the franchised model has not precluded those stores from non-compliance. This is true in spite of the comprehensive and ongoing training provided by Australia Post. This highlights the fact that both franchised and licensed postal stores have substantial issues with training and education on anti-money laundering regulatory compliance. The large number of individual financial services and transactional products distract staff and employees away from each store's regulatory obligations.

5.4.3 Independent Shop-front Remitters

Independent remitters made up a significant portion of the phase two data set at 38% (see Figure 26). The data set includes results from agencies fitting the Semi-formal, excepting PayPal, and Covert Non-aligned categories outlined in Figure 26. The majority of inquiries were made to Semi-formal ARS agencies and three were made to Covert Non-aligned remittance services. The covert remittance businesses were operating out of ethnically focussed stores, which were a butchers shop, video store, and restaurant.

Figure 26. Remittance Categories and Characteristics

Remittance Service Categories	Remittance Characteristics and Brand Examples
Semi-formal	<ul style="list-style-type: none">• Transfers may be secondary to main business.• Transfers to many different countries.• Provides online services.• Operates out of a shop front.• Advertises to the public.• (i.e. WU, PayPal, MoneyGram, Ez Money Express and UAE Exchange).
Covert Non-aligned	<ul style="list-style-type: none">• Operates out of an unlikely premise (i.e. Taxi, Restaurant, Butcher, Ethnic Video Store, and Private Residence).• Not Brand Affiliated.• Relies on word of mouth and familial networks instead of advertising.• Hawala, Hundi, and Black Market Peso style operations.

The results highlight a mixed level of non-compliance in the independent store-front sector of the ARS community (see Figure 27). A total of 31.5% of independent agents contacted were willing to accept a student identification card, and 15.7% of the sample did not require identification to make a transaction. A slight majority of agents (52.6%) required primary photo identification to authorise a transfer. Overall however 47.2% of agents contacted did not require primary photo identification and as a result were not compliant with Australia's AML/CTF legislation.

Figure 27. Independent Store-front Business Data

Accepted ID	Independent Store-front Business
Primary Photo I.D.	52.6%
Student I.D.	31.5%
No I.D.	15.7%
Total	38 %

5.4.4 Business Inquiry Observations

During a number of the business inquiries significant confusion was displayed by many ARS staff with regard to the definition of what is considered valid identification. When making a contact ARS staff would often mention but not specify

an identification requirement. In response the researcher would ask “*is student ID ok?*”, which would generally result in a yes/no response. However on multiple occasions staff would ask in return whether the card had a photo, signature, and an expiry date. An affirmation of these characteristics of a student card was always given. This confirms that as long as these features were on the student card, then it was accepted. The confusion expressed by ARS staff further supports the significance of the limitation of knowledge and understanding as a persistent barrier to compliance. It also supports the inadequacy of Australia’s anti-money laundering regime and its failure to effectively inhibit non-compliance in the ARS sector.

One business inquiry found that an ARS agency made it a standard operation to only sight identification on the first visit to the agency. After the first visit it was explained that “*your information will be saved onto our computer and there is no need to worry about bringing identification if you come again*”. The agency was also willing to take student identification on the first visit. This practice is illegal (Australia, 2012), and is easily exploited to launder money. For example if a customer were to supply fake identification and it was not detected, then the ‘once-only’ identification check would prevent further scrutiny of the fake identification.

Independent store front-remitters are still under significant threat of exploitation for money laundering, despite extensive regulatory controls (see Figure 27). While the compliance level of the independents is better than Australia Post, the compartmentalised structure of storefront remitters means that they are more likely to be targeted by organised criminals to launder money, in comparison to a Post Office. The detection of three underground remittance services in this data set further reinforces difficulties with Australia’s anti-money laundering regime, and the need to take alternative steps to improve the cultural insensitivity of regulation in the ARS sector. Alternative remittance businesses which operate independently are the most likely to be substantially impacted by the eight barriers to compliance, and as a result move their business underground.

5.4.5 Travel Business: A More Secure ARS Platform

Travel businesses made up 16% of the total business inquiries data set. In contrast to the other three categories, there is a high level of compliance recorded. The remittance businesses contacted to retrieve this data were travel agencies which are owned and operated by multinational corporation Flight Centre Limited (2011). The majority of inquiries were made to Flight Centre, however Escape Travel, Student Flights, and Travel Money Oz, are affiliates of Flight Centre Limited and were also contacted (Limited, 2011). All of these travel agencies are also MoneyGram agents. This service is provided to facilitate international money transfers in order to support their travelling customers.

Figure 28. Travel Business Inquiries Data

Accepted ID	Travel Business with MoneyGram
Primary Photo I.D.	90%
Student I.D.	10%
No I.D.	0
Total	16%

Travel agencies which provide MoneyGram services (see Figure 28) showed high levels of compliance to identification requirements. Ninety percent of travel agencies require primary photo identification to conduct a money transfer, while only ten percent were willing to accept student identification. This trend highlights the context in which Australian AML/CTF regulations are effective in the ARS sector. The Flight Centre Limited Corporation is a multibillion dollar, multinational organisation which has the significant resources to effectively implement and maintain systems which ensure AML/CTF compliance (Limited, 2011 c). Flight Centre has professional policies in place to deal with unethical behaviour and misconduct in the workplace (Limited, 2011 a), and an ongoing and effective risk management policy (Limited, 2011 b). These are three reasons why this business is effective at implementing and maintaining compliance with Australian AML/CTF regulations.

More importantly, the travel industry has other advantages which overshadow the eight barriers to AML/CTF compliance faced by alternative remittance agents outside this sector. The key factors which aid the travel sector beyond the significant level of resources available to large business are;

- a) Travel agents have a peak representative body called AFTA (2012 a).
- b) The nature of travel is strictly regulated in a way appropriate to the industry (AFTA, 2012 b).
- c) The travel industry has a culture of financial backup (AFTA, 2012 b).
- d) Flight centre agencies have only three areas of business (Travel, Insurance, and Remittance/Finance services) (Flight Centre, 2012).

These aspects of the travel industry indicate a higher level of compliance standing than Australia's general ARS sector. There are very few barriers to achieving and maintaining regulatory compliance, whether in the area of travel or AML/CTF legislation.

Regulation of the travel industry is designed specifically for the benefit of travel agents and their business (AFTA, 2012 a). The Australian Federation of Travel Agents (AFTA) is a government run representative body which guides best practice in the travel sector (AFTA, 2012 b). Its mission is: "to promote travel and tourism and enhance the professionalism and profitability of its members through effective representation in industry and government affairs, education and training and by identifying and satisfying the needs of the travelling public" (AFTA, 2012).

AFTA provides a mechanism to ensure that the positive development of the industry is a key focus alongside government initiatives which shape regulatory measures. AFTA also highlights the importance of improving the professionalism and profitability of its members through the development and provision of certified education and training (AFTA, 2012 a). The benefits of a peak body which develops and implements regulations should not be understated.

Another advantage held by the travel industry over the general ARS sector is its established culture of financial backup (AFTA, 2012 b). The travel industry representative body AFTA trains and certifies travel agents to consult their customers on the importance and benefits of travel insurance, as an effective risk management tool for industry (ibid). This is an effective way of protecting the industry's customers, which in turn maintains consumer confidence in international travel. Without that confidence the profitability of the travel industries commercial imperative will decline. This use of financial risk management explains in part the value of Flight Centre's approach to AML/CTF requirements.

Flight Centre travel agencies also benefit due to the limited number of services provided in each store (Flight Centre, 2012). Unlike the general population of store-front ARS agents and staff, Flight Centre employees only need to attend to three primary services; travel, insurance, and remittance/currency exchange services (ibid). With less products and services surrounding an ARS transfer service, AML/CTF compliance is less likely to be diluted by other aspects of an ARS business. This also allows for additional education and training for staff on regulatory requirements, decreasing the risk of exploitation for money laundering.

In conclusion, the results gathered from travel agencies highlights the need for regulatory improvement. These results also cast a shadow over ARS regulations that inhibit compliance rather than promoting it. With the improvements to the travel sector facilitated by AFTA, the question remains as to why Australia's ARS sector lacks cohesive industry representation. Australia's ARS sector struggles under culturally and contextually insensitive regulations. The ARS industry would benefit from official representation by a professional association. Without such a body, the ARS sector is likely to continue to weaken Australia's national security framework.

5.4.6 Overall Result of Business Inquiries

The results from the complete data set on business inquiries show the state of legislative adherence in Australian ARS agencies (see Figure 29). From a total of 50 business inquiries, 46% of ARS agencies were willing to accept student identification as validation for a substantial international transaction, while 6% did not require any identification at all. In contrast 48% of ARS agencies were unwilling to take student identification, instead indicating that only primary photo identification was acceptable. These results indicate that strict AML/CTF regulation of the ARS sector has failed to reduce the risk of exploitation in money transfer businesses.

Figure 29. Overall State of Legislative Adherence.

Accepted ID	Total
Primary Photo I.D.	48%
Student I.D.	46%
No I.D.	6%
Total	n=50

The high level of non-compliance in the phase two inquiries resonate with the eight barriers to AML/CTF compliance (see Figure 29). These barriers indicate design flaws in the regulatory framework applied to the Australian ARS sector. This refers to the fact that Australia's regulatory framework is based on international standards instead of social and cultural factors, along with consultation with the ARS sector. Therefore with over half of participants demonstrating non-compliance with regulated identification requirements, the weakness evident in Australia's ARS community represents a serious threat to national security. The Australian remittance community's regulatory practices show the impact of ineffective international AML/CTF standards (Passas, 2006). From the conclusion on Australia's first and only mutual evaluation in 2005, followed by the AML/CTF Act 2006 (Australia, 2012), Australia's anti-money laundering regime has advanced by gradually imposing costly and demanding regulations on the ARS sector (AUSTRAC, 2007; 2008 c; 2009; 2010; 2011 h).

This 'enforcement' style of regulation moves the eight significant barriers to compliance into the foreground of this discussion. Substantial barriers to compliance include the limitation of understanding and knowledge which prevents the effective training of ARS staff on compliance requirements. Other factors include the prioritisation of commercial imperative over compliance processes, a lack of resources, and the allure of large profits. This allows ARS agents to facilitate highly profitable criminal activity in the face of complex and costly regulatory measures. These barriers also stand as influential motivators for ARS agents to avoid regulatory measures, and to consider moving their transfer service underground.

Australia should look to social and culturally derived community consultation for a solution. In examining the level of compliance in Flight Centre travel agencies (which provide MoneyGram transfer services), the regulation of Australia's ARS sector appears to benefit from the travel industry's model. The travel industry gains advantage from industry representation through AFTA. AFTA is an association which develops best practice policy for the travel sector, in the interest of the industry as a whole (AFTA, 2012 a). In a similar sense, the creation of a peak body to represent members of the ARS community in the industry and government affairs would provide a mechanism for reducing the informal approach to compliance within the ARS industry. The peak body could also be in a position to develop ongoing training and educational programs, eventually leading up to the creation of industry certification standards for ARS agents.

5.5 PHASE THREE: INTERNATIONAL TRANSACTIONS

5.5.1 Introduction

Phase three of data collection involved six international transfers in three sets. The first set of transfers sent money from Australia to Kenya, then from Kenya to Dubai, then from Dubai back to Australia. The second transfer was a single transaction and with receipt in Zimbabwe. The third set of transfers was made to and from Pakistan. Specific details about remittance agents have been removed/redacted for privacy reasons and in order to satisfy the ethics requirements underpinning the collection of this data.

5.5.2 International Transfers First Set

Figure 30. First Set: International Transfer and Receipt One

Date: 10/08/2012 **TRANSFER|1**

Please Circle: Transfer

Transfer Agency Visited:

Location: VICTORIA PARK

Basic description of services other than transfers provided: FOOD WHOLESALE

Transaction to Country: KENYA

Amount Transferred: 200

Currency Type: AUD

Cost of Transfer: AUD 10 Exchange Rate: 1.0

Speed of Transfer: Instant

For transfers:

Was a copy of your ID taken: No

Was a receipt given for the transaction: No

Please return a copy of the receipt with this question sheet.

Comments regarding your transfer or receiving experience:

-TRANSACTION CAN ONLY HAPPEN IF THEY KNOW YOU OR HAVE IDENTIFIED YOURSELF FOR THROUGH THEIR COMPUTERS.

- THEY KNOW WHO IS TO COME AND PICK UP MONEY.

Date: 11/8/2012 (dd/mm) **Receiving 1**

Please Circle: Receiving

Transfer Agency Visited:

Location: BONDENI, MOMBASA

Basic description of services other than transfers provided:

PERFUME SALES.

Receiving from Country: AUSTRALIA

Amount Received: Other: U.S \$190

How were you contacted to pick up the transfer? TEXT MESSAGE

Was photo ID required: No

If No, Did the agent take your details? Yes

What details were recorded: NAME, PHONE NUMBER

Transfer:

The first international transaction made to Kenya was through a remittance agency in Victoria Park, Perth W.A (see Figure 30). This agency will only do business with customers identified through a familial network of customers. As such this requires that a friend or family member supply the remittance agent with one's personal details before the existence of the transfer service will be acknowledged by staff. The informal remittance agency also doubles as a Food Wholesale business. The transaction amount was AUD \$200, which incurred a fee of AUD \$10, at the exchange rate of 1:1. No identification was required to make the transfer, and the speed of remit was instant. No receipt was given for the transfer.

Receipt:

Receipt of the converted US \$190 occurred a day later in Bondeni, Mombasa in Kenya. The receipt of these funds was made in a retail perfume store and the recipient was informed of the waiting transaction via text message. Although no identification was required to receive the funds, a name and phone number were collected and recorded at the time of pick-up (see Figure 30).

Figure 31. First Set: International Transfer and Receipt Two

11/8/2012 Transfer 2

Date: 12/08/2012 (dd/mm) Receiving 2

Please Circle: Receiving

Transaction to Country: DUBAI

Transfer Agency Visited:

Amount Transferred: \$ 180

Location: DEIRA, DUBAI

Currency Type: AMERICAN DOLLARS

Basic description of services other than transfers provided: MONEY EXCHANGE DEALERS

Cost of Transfer: \$10 Exchange Rate: AED 3.7

Speed of Transfer: SECOND DAY OFF TRANSFER, SOME SHOPS DO NOT OPEN ON SATURDAYS IN DUBAI

Receiving from Country: MOMBASA, KENYA

For transfers:

Was a copy of your ID taken: No

Amount Received: AED: 666

Was a receipt given for the transaction: No

How were you contacted to pick up the transfer? TEXT MESSAGE

Please return a copy of the receipt with this question sheet.

Was photo ID required: No

Comments regarding your transfer or receiving experience:

If No, Did the agent take your details? Yes

EASY TO USE AND INSTANT WHICH IS HELPFUL IN EMERGENCY

What details were recorded: NAME, MOBILE NUMBER

SITUATIONS.

Other: STUDENT I.D

Transfer:

From Mombasa, US \$180 was transferred on to Dubai on the same day as the receipt of the funds from Australia (see Figure 31). The transfer cost a flat USD \$10 fee and was converted to Arab Emirates Dirham's (AED), at the exchange rate of 3.7:1. No receipt was given for the transaction and no identification was required. It is noted that the transfer might possibly take an extra day due to closed trading for some stores on Saturdays in Dubai. The normal speed of the transfer is instant.

Receipt:

The next day the funds were received in a suburb called Deira in Dubai, to the sum of AED 666. The ARS agency through which the funds arrived was a Money Exchange Dealer. No primary photo identification was required to receive the funds; however the agent did sight the student identification of the receiver, and make a record of their name and mobile number. A text message was sent to notify the receiver of funds awaiting pick-up (see Figure 31).

Figure 32. First Set: International Transfer and Receipt Three

<u>Transfer 3</u>	<u>1408/2012</u>	<u>RECEIVING 3</u>
<u>Transaction to</u> Country: AUSTRALIA		<u>Transfer Agency Visited:</u>
Amount Transferred: 170		Location: VICTORIA PARK
Currency Type: AUD		Basic description of services <u>other than transfers</u> provided: FOOD WHOLESALE
Cost of Transfer: \$10 Exchange Rate: 3.7		<u>Transaction</u>
Speed of Transfer: INSTANT		<u>Receiving from</u> Country: DUBAI
<u>For transfers:</u>		Amount Received: AUD 170
Was a copy of your ID taken: No		How were you contacted to pick up the transfer? TEXT MESSAGE
Was a receipt given for the transaction: No		Was photo ID required: YES
<u>Please return a copy of the receipt with this question sheet.</u>		If No, Did the agent take your details? YES
Comments regarding your transfer or receiving experience:		What details were recorded: RESIDENTIAL ADDRESS, FULL NAME, DATE OF BIRTH, ISSUE AND EXPIRY DATE
EASY TO USE WITHOUT ANY HUSTLE!		If Yes, what did you use: PASSPORT

Transfer:

The final transfer of AUD \$170, revealed a total of \$30 in transfer fees had been accrued (see Figure 32). The exchange rate returning to Australia was 3.7:1, which is the same rate which was applied from Mombasa to Dubai. Again, no identification was required to make the transfer and no receipt was provided.

Receipt:

When the funds were received in Australia from Dubai, the same food wholesaler in Victoria Park provided access to the funds (see Figure 32). A text message was used to inform the receiver and a total of AUD \$170 was received. However in contrast to the original outgoing transfer made to Kenya, the remittance agent required full primary photo identification from the receiver, which was provided in the form of a passport. The ARS agent recorded the address, full name, date of birth, date of issue on the passport, and the expiry date.

5.5.3 First Set: International Transactions Observations

Common characteristics across this set of international transfers are; a lack of identification, no receipts given for transferring or receiving funds, a flat fee no matter the destination, and low level recording of receivers details generally without sighting identification. From the first transfer through to the last, Dubai to Australia, the ARS agencies carried out transactions without sighting any form of identification. One agent sighted a student identification card, and others made a note of receivers name and mobile number expressing significant trust in their customers.

When funds were received into Australia from Dubai, the ARS agent set a different standard of identification requirements. This jump from no identification standard to the very highest possible is different to the other transfers. The transfer agent in Dubai was not concerned about the customer sending funds into Australia. Outgoing transactions from Australia appear to present little concern for the food wholesaler in Victoria Park. Yet an international transfer made out of Australia with no identification is just as illegal as remittances flowing in which have not been validated through details recorded from primary photo identification (Australia, 2012).

5.5.4 Second Transfer: Individual International Transfers to Zimbabwe

Figure 33 shows the transfer of money to Zimbabwe. This ticked boxes show as black boxes over the appropriate answer. As with other transfers there are several parts of each form which have been left blank by the remittance provider, indicating a less exacting approach to the recording of transfer details.

Figure 33. Second Set: International Transfer to Zimbabwe (Redacted)

Date: <u>21/08/2012</u> (dd/mm)	If Yes, what did you use: Drivers Licence: <input type="radio"/> Passport: <input checked="" type="radio"/>
Please Circle: <input checked="" type="radio"/> Transfer or Receiving	Other:
<u>Transfer Agency Visited:</u>	<u>For transfers:</u>
Brand (if any): Shop Name: Location: <u>Nollamara</u>	Was a copy of your ID taken: No <input checked="" type="radio"/> Yes <input type="radio"/> Was a receipt given for the transaction: No <input checked="" type="radio"/> Yes <input type="radio"/>
Basic description of services <u>other than</u> transfers provided:	Please return a copy of the receipt with this question sheet.
Transaction to Country: <u>Zimbabwe</u>	Comments regarding your transfer or receiving experience: <u>NO RECEIPT WAS GIVEN UNLTY THE EFT POS RECEIPT ATTACHED</u>
Amount Transferred: <u>300</u>	....................
Currency Type: AUD <input checked="" type="radio"/> Other: .....	..... ..... ..... .....
Cost of Transfer: <u>15</u> AUD Exchange Rate: <u>1:1</u>	....................
Speed of Transfer: <u>INSTANT</u>	....................
Receiving from Country: .....	..... ..... ..... .....
Amount Received: in AUD <input type="radio"/> Other: .....	..... ..... ..... .....
How were you contacted to pick up the transfer? .....	..... ..... ..... .....
Was photo ID required: No <input type="radio"/> Yes <input checked="" type="radio"/>
If No, Did the agent take your details? No <input type="radio"/> Yes <input checked="" type="radio"/>
What details were recorded: <u>PASSPORT NO. ADDRESS NAME LAST NAME</u>	....................

Transfer:

A single transfer of AUD\$300 was sent to Zimbabwe via an ARS agency in Nollamara, Perth W.A (see Figure 33). The transfer fee was \$15 and the exchange rate was 1:1. The transfer was instant and primary photo identification was required to make the transaction. Details recorded by ARS staff include the passport number, address, as well as first and last name. No receipt was given for the transaction.

Figure 34. Second Set: Receipt in Zimbabwe

<p>Date: 22/08/2012 (dd/mm)</p> <p>Please Circle: Transfer or <input checked="" type="radio"/> Receiving</p> <p>Transfer Agency Visited:</p> <p>Brand (if any): [REDACTED]</p> <p>Shop Name: [REDACTED]</p> <p>Location: Harare Zimbabwe.....</p> <p>Basic description of services other than transfers provided:</p> <p>.....n/a.....</p> <p>Transaction to Country:</p> <p>Amount Transferred:</p> <p>Currency Type: AUD <input type="radio"/> Other:</p> <p>Cost of Transfer: Exchange Rate:</p> <p>Speed of Transfer:</p> <p>Receiving from Country:Australia.....</p> <p>Amount Received:300..... in AUD <input type="radio"/> Other:USD.....</p> <p>How were you contacted to pick up the transfer?sms text followed by a telephone call.....</p> <p>Was photo ID required: No <input type="radio"/> Yes <input checked="" type="radio"/></p> <p>If No, Did the agent take your details? No <input type="radio"/> Yes <input type="radio"/></p> <p>What details were recorded:</p> <p>[REDACTED]</p>	<p>If Yes, what did you use: Drivers Licence: <input type="radio"/> Passport: <input type="radio"/></p> <p>Other:National Identity Card.....</p> <p>For transfers:</p> <p>Was a copy of your ID taken: No <input type="radio"/> Yes <input type="radio"/></p> <p>Was a receipt given for the transaction: No <input type="radio"/> Yes <input type="radio"/></p> <p><u>Please return a copy of the receipt with this question sheet.</u></p> <p>Comments regarding your transfer or receiving experience:</p> <p>I was given directions on how to get to the agents location.....</p>
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Receipt:

The money arrived in Harare, Zimbabwe the next day. A text message was used to alert the owner of funds ready to be picked up (see Figure 34). A total of USD \$300 was delivered and primary photo identification was required at pick-up. A national Identity card was used to as valid identification. Unfortunately, the money could not return via informal funds transfer to Australia. This is because the only money transfers allowed out of Zimbabwe are formalised banking transfers such as telegraphic transfers.

5.5.6 Third Set: To and From Pakistan

Figure 35. Third Set: Australia to Pakistan (Redacted)

To Send Money

SENDER: [REDACTED]	Date & Time: 27/08/2012 2:51:00 AM
Address: [REDACTED]	Agent name: [REDACTED] VICTORIA PARK WA 6101
Telephone: [REDACTED]	Operator Id.: [REDACTED]
ID Type: Australian Drivers	ID Number: [REDACTED]
ID Issuer: Australia	ID Place of Issue: WA
ID Issue Date: [REDACTED]	ID Expiration Date: [REDACTED]
Date of Birth: [REDACTED]	Country of Birth: [REDACTED]
Occupation: [REDACTED]	Purpose of Transaction: [REDACTED]
WU Card Nb.: [REDACTED]	
RECEIVER: [REDACTED]	
Will Receiver have valid Id? Yes	
Test Question:	
Answer:	
Optional services:	
MTCN: [REDACTED]	
Collection currency: Australian Dollar	
Amount:	602.00
Send Charge:	15.00
Message Charge:	3.00
Delivery Charge:	0.00
Promotion code:	
Tax:	0.00
TOTAL: 620.00	
Payout amount: 58,159.68 Pakistan Rupee	
Exchange rate: 96.61076760	
Message: MONEY FROM [REDACTED]	
The exchange rate applicable to your transfer appears above. Most money transfers are converted into payment currency at the time they are sent. However, in a few countries, local regulations require money transfers to be converted only when they are paid. If you are sending to one of those countries, the exchange rate noted above is only an estimate, and the actual exchange rate will be determined at the time of payment. Ask your agent if you have questions about the exchange rate applicable to your transfer.	
CERTAIN TERMS AND CONDITIONS GOVERNING THE MONEY TRANSFER SERVICE YOU HAVE SELECTED ARE SET ON THE BACK OF THIS FORM. BY SIGNING THIS FORM, YOU ARE AGREEING TO THOSE TERMS AND CONDITIONS. IN ADDITION TO THE TRANSFER FEE, WESTERN UNION AND ITS AGENTS ALSO MAKE MONEY FROM THE EXCHANGE OF CURRENCIES. *PLEASE SEE IMPORTANT INFORMATION REGARDING CURRENCY EXCHANGE SET FORTH ON THE BACK OF THIS FORM. PROTECT YOURSELF FROM CONSUMER FRAUD. BE CAREFUL WHEN A STRANGER ASKS YOU TO SEND MONEY.	
Customer signature:	Agent signature: [REDACTED]
Customer name (please print):	Date: 27/8

Transfer Only:

The first transfer to Pakistan was made through a money transfer business in Victoria Park, Perth Western Australia (see Figure 35). A total of AUD \$620.00 was sent using a Western Union gold card along with an Australian Drivers License. The gold card allows customers to streamline their transfer time by recording details of repeat recipients reducing the amount of detail required to be written out on each transfer sheet (Western Union, 2012). In addition, the service is free, is capable of storing a large number of recipients details, and holds the customers personal details as sighted from their identification when signing up for the membership (*ibid*). The transfer cost AUD \$15.00 and a three dollar fee was charged for a message to be sent with the transfer. The exchange rate at the transfer agency was 96.6:1 and the payout in Pakistan Rupee (Rp) was 58,159.68. The receipt included complete details of the customer's identification details, the name of the intended recipient, as well as terms conditions of the transfer concerning exchange rate and other topics. The receipt was signed by the agent but not by the customer, and has a section for test questions and noting whether the receiver will have valid identification. The test section was not filled out except for a 'Yes' indication on the valid identification of the receiver question.

Figure 36. Third Set: Pakistan to Australia (Redacted)

To Send Money	
SENDER:	[REDACTED]
Address / Telephone:	[REDACTED]
PAKISTAN	[REDACTED]
ID:	National Identification Card
ID number:	[REDACTED]
ID expiration date:	[REDACTED]
RECEIVER:	[REDACTED]
RECEIVER:	[REDACTED]
Will receiver have valid ID? Yes	
MTCN:	[REDACTED]
Date & time:	(EST) 08/29/2012 5:48:00 AM
Agent:	Pakistan [REDACTED]
Destination:	AUSTRALIA
Amount sent:	2,000.00
Send charge:	600.00
Message charge:	0.00
Delivery charge:	0.00
Tax:	0.00
TOTAL:	2,600.00 Pakistan Rupee
Exchange Rate:	0.0099437
Layout Amount:	19.89 Australian Dollar
National services:	
The exchange rate applicable to your transfer appears above. Most money transfers are converted into payment currency at the time they are sent. However, in a few countries, local regulations require money transfers to be converted only when they are paid. If you are sending to one of those countries, the exchange rate noted above is only an estimate, and the actual exchange rate will be determined at the time of payment. Ask your agent if you have questions about the exchange rate applicable to your transfer. CERTAIN TERMS AND CONDITIONS GOVERNING THE MONEY TRANSFER SERVICE YOU HAVE SELECTED ARE SET ON THE BACK OF THIS FORM. BY SIGNING THIS FORM, YOU ARE AGREEING TO THOSE TERMS AND CONDITIONS. IN ADDITION TO THE TRANSFER FEE, WESTERN UNION AND ITS AGENTS ALSO MAKE MONEY FROM THE EXCHANGE OF CURRENCIES. *PLEASE SEE IMPORTANT INFORMATION REGARDING CURRENCY EXCHANGE SET FORTH ON THE BACK OF THIS FORM. PROTECT YOURSELF FROM CONSUMER FRAUD. BE CAREFUL WHEN A STRANGER ASKS YOU TO SEND MONEY.	
Customer signature:	Agent signature:
Date: [REDACTED]	

Transfer Only:

The second transfer was made in a money transfer agency two days after the first transfer (Figure 36). The transaction came to the total of 2,600 Rp which converted to AUD \$19.89 at the rate of 0.0099437:1. The transfer cost 600Rp and was validated by National Identification Card details which, according to the international volunteers' remarks, was not taken by sighting the card instead the number and expiry date was given to the agent verbally. The key detail of the receipt were the name and address of the sender, a consignment number (MTCN), operator identification number, and the receivers name. This receipt has a question as to whether the receiver will have valid identification which was marked as 'Yes'. There was no test question section on the receipt. The same terms and conditions are marked on the receipt indicating that the agent is part of the Western Union network. The receipt was signed by the agent but not by the customer.

5.5.7 Third Set: To and From Pakistan Observations

Customer details required on the ‘Australian to Pakistan’ Western Union form were far-reaching in comparison to the returning ‘Pakistan to Australia’ form. The ‘Australia to Pakistan’ receipt required all information from a driver’s license or a passport. This includes detail on the date of issue, expiry and date of birth, country of birth, occupation, and purpose of the transfer. In contrast, the receipt for the Pakistan to Australia transfer only had headings for identification type and unique number and the expiry date. This highlights a disparity between Australia and Pakistan with customer authentication.

The use of a Western Union Gold Card (which is designed to streamline the transfer process) is a mechanism which could lead to non-compliance in standard procedure. The level of customer detail held on a gold card provides an easy way to process a transaction quickly without sighting valid identification. This system reinforces the practice of prioritising a commercial advantage (i.e. the speed and ease of transfers). This practice also illustrates leanings towards familial and trust-based practices in money transfers.

As a holder of a Western Union Gold Card, any customer can process an international money transfer without the need to show identification. The Gold card automatically generates pre-existing identification information. It would be easy for a family member or friend to use a Gold Card, allow the remittance agent to process a transfer, and complete the transaction without the need to validate the identification details. This vulnerability exists even though the presenter of the card might not have been the person whose identification details have been used from the Gold Card. Western Union has developed this system of remittance process in order to attract more clients who have a closer predilection towards familial and trust-based networks. Familial and Trust networks can hinder regulatory compliance with identification requirements.

Failure to sight identification in the process of the second transfer indicates the persistence of informality in the remittance agency. In this case, details on valid identification are presented as if sighted when it was not. The remitter’s actions in asking for valid identification details without checking them is an example of how informality persists despite a formal transfer and recording process. In both transactions agents signed the receipt in order to validate the transfer process. However in both cases the customer did not sign the receipt leaving it blank. This indicates a less rigorous approach to the recording of transfer details in both transactions.

5.6 PHASE THREE CONCLUSIONS

The phase three data results highlight trends in international money transfers. The first set of transfers show a very low level of customer identification. Transfers are usually conducted with no identification requirements at all, whereas upon receiving funds an ARS agent will usually make a record of the receivers name and phone number. Outgoing customer identification standards across the international transactions were extremely low.

When money was transferred back into Australia from Dubai the identification requirement increased. The same informal remittance agent who had facilitated an

anonymous transfer to Kenya required a primary photo identification check for receiving funds just a few days later. This is significant because facilitating an anonymous transaction out of Australia is just as unlawful as receiving and distributing anonymous funds into Australia. The disparity between other transactions where identification requirements have been non-existent, and the very last receipt of funds indicates an inconsistency in compliance with AML/CTF regulations.

The Pakistan transfers show an inconsistency in customer identification requisites between nations. The 'Australia to Pakistan' Western Union receipt recorded extensive customer detail whereas the return transfer from Pakistan did not. The Western Union Gold Card is a mechanism designed to streamline the transfer process. Gold Cards can sidestep identification authentication. Transfers from Pakistan to Australia tend to be more informal. This is illustrated by the formal recording and transfer process expected on the receipt, yet undermined by the agents' verbal verification of the National Identity number and expiry date. The validation ignores the required identification process yet is passed off as sighted and verified by the remittance agent. Such an action cannot be distinguished due to the lack of detail required by the form. In addition, both receipts were signed by the transfer agent but not by the customer despite the legal requirements to the contrary.

In conclusion, the results extracted from the data indicate the informal nature of traditional systems in international alternative remittances. There was a lack of customer identification across the entirety of the first set of transfers, with the exception of the last receipt of funds into Australia. There is an inconsistency between information from different transfer origins, as well as the use of Western Union Gold Cards, which promote non-compliance through operational streamlining. The transfer agency in Pakistan also demonstrated a reliance on unclear transfer record sheets, and the practice of only partially filling in remittance forms. These results substantiate the conclusion that regulatory inadequacies may extend beyond international borders, to alternative and informal systems which regularly send untraceable money to and from Australia.

CHAPTER SIX: CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS

6.1 INTRODUCTION

There are inconsistencies in the adherence to AML/CTF legislation between remittance agencies in Australia. This thesis hypothesised that informal remittance agents (in particular those providing alternate remittance systems) would be prepared to ignore or avoid some of the identification requirements for an international money transfer.

A trend towards loose regulatory control, characterised by a lack of cultural awareness, and informal regulatory practices, has increased the risk of criminal exploitation. There is widespread partial obscurity of the identification of persons engaged in sending and receiving money across international borders. The primary outcomes of this research have found that money transfer agencies face eight significant barriers to compliance with Australia's anti-money laundering regulations.

Analysis of data collection results found that over half of remittance staff in one sample exhibited non-compliance with identification requirements under anti-money laundering regulations. Furthermore, analysis of a separate data set revealed an overall lack of customer identification requirements in money transfer processes, which extend beyond national borders. This chapter explains the implementation and limitations of this study, looks at future research, and answers the secondary and principal outcomes of this study. Recommendations are provided based on the outcomes of the research.

6.2 IMPLEMENTATION AND LIMITATIONS

Overall, the design and implementation of this research project developed well with few complications. The project was referred to a higher level of ethical clearance in order to satisfy aspects of deception within the study, specifically the transfer of money with the expectation that remittance agents would ignore identification compliance. This was due to the testing of legislative compliance as if the researcher was a customer for data collection, and the possibility of exposing criminal activity as a result.

Ethical clearance was obtained under the *National Statement on Ethical Conduct of Human Research* (Government, 2007 a). Data collection involved relatively small sets of transactional information owing to limitations in terms of the location and identification of suitable informal remittance agencies. Further limitations included the need for sizeable monetary outlay (more than \$300) on the part of the researcher to complete a set of international money transfers. Subsequently there was a limited sample size of the phase three data set. A larger sample was obtained for the phase two data set with 88 initial remittance samples reducing to a phase two sample of 50 remittance agencies. The limitation of external validity is also applicable to this research project, thus further research in this area of study is required in order to test the conclusions and recommendations drawn from the data.

6.3 FUTURE RESEARCH

Australia's alternative remittance sector is comparatively open to greater exploitation than the formal banking sector. The sector is characterised by a set of barriers and limitations that drive many of its industry stakeholders to resort to reduced compliance with identity regulations. It suffers from a lack of professionalism, certification, and industry representation. A future research project may seek to test the viability of peak body representation as a mechanism for professional development, and appropriate regulation in the alternative remittance sector.

6.4 ANSWERING THE RESEARCH QUESTIONS

6.4.1 Supporting Research Question

What are the significant barriers to legislative adherence in ARS?

The results of the phase one literature review highlight eight barriers to compliance in Australia's alternative remittance industry. These barriers are detailed in order of significance;

1. Culturally Insensitive Regulatory Measures
2. Limitation of Knowledge and Understanding
3. Allure of Large Profits
4. Time, Money and the Lack of Resources
5. Prioritisation of Commercial Imperative
6. Trust and Familial Networks
7. Informal Legacy
8. Informal Environment

These eight barriers are influenced by the impact of the first barrier; Culturally Insensitive Regulatory Measures. The second, fourth, and fifth barriers are influenced by Australia's overly prescriptive anti-money laundering regulations. The remaining barriers are amplified by cultural factors. The significance of all eight barriers lies in their aggregated impact, resulting in a culture of regulatory compliance.

A number of other key issues underline the existence of barriers to AML/CTF compliance, especially with regard to customer identification. Money transfer agents face a significant barrier in terms of their limited understanding of what is necessary to achieve compliance under Australian law. In addition the money transfer sector is at a disadvantage from bureaucratic and criminal expectations, with the allure of criminal profits made more significant by overbearing and uninformed regulations.

Alternative remittance agencies lack the necessary resources to achieve compliance under AML/CTF regulations. As such the allure of unregulated operation is amplified, and this represents a significant threat to Australia's national security. A money transfer agent's commercial needs can overshadow the need for compliance, particularly where the sale of primary services is likely to take priority over the practice of sighting, verifying and authenticating identification.

Customer trust relationships were informal, and in such instances familiarity between agent and customer became relaxed. The opportunity to side-step regulatory control was also highlighted. As well as the fact that the informal environment of remittance agencies challenges AML/CTF compliance through a shared focus on unrelated sales and services.

In conclusion, the result derived from the review of the literatures found that the first barrier to compliance is the most influential of all eight barriers. This is predominantly because the AML/CTF regulations imposed on remittance agencies are derived from a 'Western' perspective. Traditional Western banking systems are not sensitive to the cultural factors which explain the persistent trend of reliance on informal systems. They view informal transfers as less valuable than certified bank transfers and telegraphic transfers. Therefore affecting change in the design of regulation imposed on Australia's alternative remittance sector is the key to inhibiting the influence of the eight barriers on the state of compliance in the money transfer industry.

6.4.2 Principal Research Question

To what extent are alternative remittance agencies upholding customer identification standards when transferring and receiving funds?

The data collected from fifty ($n=50$) alternative remittance agencies highlights a 52% state of non-compliance with customer identification standards. A total of 46% of remittance agencies were willing to accept student identification, and a further 6% did not require identification to make a transaction. The other data set showed a lack of customer identification in international money transfer agencies. This data set also highlights the persistence of informality and irregularity in systems which have formalised recording and transfer processes, and the use of mechanisms which promote non-compliance (the Western Union Gold Card). The sample of international transactions also highlighted the non-conforming manner that informal transfer services operate. These results infer that regulatory inadequacies may extend beyond the border, to alternative and informal systems which regularly send untraceable money to and from Australia.

The threat of money laundering through the Western Union systems attached to Australia Post outlets is high. Over 70% of Licensed Post Offices and 66% of franchise staff expressed a willingness to accept student identification in lieu of a primary identification document (i.e.: Passport, drivers licence). A total of 31.5% of independent agents were willing to accept student identification, and 15.7% of the sample did not require identification to make a transaction. In contrast the 90% state of compliance, in flight centre affiliated travel agencies, supports the assertion that Australia's travel industry benefits from characteristics which make compliance with anti-money laundering regulations easier to achieve.

6.6 RECOMMENDATIONS

The results of this study address the issue of whether the internationally recommended approach to regulating alternative remittance industries is a valid one. In conducting this research, a significant trend of non-compliance with identification requirements set out in Australian legislation was identified. In order to respond to this security threat the following recommendations are put forward for AUSTRAC and the community of wider stakeholder's benefit:

- a) The structure of remittance regulation needs to be revisited.**
 - i. Any attempt to review Australia's AML/CTF regulations on the alternative remittance sector should be conducted in consultation with the alternative remittance community.
- b) There is a need to address the lack of training and educational resources available to non-finance based Regulated Entities.**
- c) Address the lack of representation by a Peak Body in Australia's ARS industry.**
 - i. An investigation should be conducted into the viability of developing a peak body to represent members of the ARS community in industry.
- d) AUSTRAC should recognise the need to treat enterprise in the non-core remittance industry differently to business in which finance is the core function.**

Failure to address these issues will result in a persistent increase of high risk unregulated remittance activity, and criminal exploitation in Australia's ARS sector.

6.5 CONCLUSIONS

The mainstream state of non-compliance in Australia's alternative remittance community infers a low level of effectiveness in the anti-money laundering system. This implication represents a state of weakness in Australia's national security framework. From the conclusion of Australia's last mutual evaluation in 2005, followed by the AML/CTF Act 2006, Australia's anti-money laundering system has advanced by gradually imposing costly and increasingly demanding regulations on the remittance sector. This 'enforcement' style of regulation has led to the prominence of eight significant barriers to compliance. The most significant of these eight barriers are;

1. Culturally Inappropriate Regulatory Measures, which refers to the design of Australia's anti-money laundering system which is based on international standards instead of socio-cultural factors, and consultation with the ARS sector.
2. The limitation of understanding and knowledge, which limits effective training of agency staff and the accurate application of risk management.
3. The prioritisation of commercial imperative over compliance processes; or the likelihood that the effective sale of primary services will take precedence over Australia's highly complex and costly regulations.

4. The allure of large profits, which refers to the increased appeal of highly profitable criminal activity when faced with highly complex and costly regulations.

These barriers stand as influential motivators for ARS agents to avoid regulatory measures, or move their transfer service underground. Moreover, these barriers are amplified by the negative impact of the first and most significant barrier; Culturally Insensitive Regulatory Measures. Therefore changes need to be made to Australia's AML/CTF regulatory system using an awareness of the underlying social and cultural factors which resonate with the persistence of alternative remittance custom.

The level of non-compliance displayed by employees in the two post office categories contacted is likely due to; the limited knowledge and understanding provided to staff in the form of training with regard to Western Union services. The other likely reasons for the high level of non-compliance are the prioritisation of each stores commercial imperative, and the informal environment within Australia Post outlets. This is evident because Australia Post outlets are licensed to provide over 100 different services, including the facilitation of passport and other official identification applications. As a result anti-money laundering compliance is inhibited by the distraction of many other services surrounding the Western Union transfer system.

The data on independent remitters highlights mixed results on legislative compliance. While the compliance level in this category was higher than Australia Post, independent remitters remain at high risk of exploitation. This is due to the compartmentalised nature of the independent remittance sector of the ARS industry.

The data gathered from travel agencies provides a valid example of the improvements that could be made to the regulation of the alternative remittance sector. The advantages granted to the travel sector are the result of representation by the peak body AFTA. The ARS industry would benefit from official representation by a peak body like that of AFTA. Without such a body, the ARS sector is likely to continue to decline into an even less compliant sector and undermine Australia's national security framework.

The results extracted from international transactions highlight the nature of traditional operation in alternative remittance. There was a lack of customer identification across the first set of transfers, with the exception of the last receipt of funds into Australia. There is inconsistency of information between transfer origins, and the use of Western Union Gold Cards, which promote non-compliance through operational streamlining. Transfer agents also used unclear transfer record sheets, and incomplete record keeping with partially filled transaction forms. The level of detail withheld across the sample of international transactions showed non-conformity to the recording of customer details in alternative remittances. These results conclude that regulatory inadequacies extend both domestically and beyond the border, to alternative and informal systems which regularly send untraceable money to and from Australia.

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ountryCode=AU&languageCode=en&pagename=osGoldCard_MoreInfo&src=
auPostGoldCard](http://www.westernunion.com.au/WUCOMWEB/staticMid.do?method=load&countryCode=AU&languageCode=en&pagename=osGoldCard_MoreInfo&src=auPostGoldCard)

APPENDICES

Appendix (A). International Transfer Sheet Page 1

Date:/...../2012 (dd/mm)

Please Circle: Transfer or Receiving

Transfer Agency Visited:

Brand (if any):

Shop Name:

Location:

Basic description of services other than transfers provided:

.....

Transaction to Country:

Amount Transferred:

Currency Type: AUD Other:

Cost of Transfer: Exchange Rate:

Speed of Transfer:

Receiving from Country:

Amount Received: in AUD Other:

How were you contacted to pick up the transfer?

.....

Was photo ID required: No Yes

If No, Did the agent take your details? No Yes

What details were recorded:

.....

Appendix (B). International Transfer Sheet Page 2

If Yes, what did you use: Drivers Licence: Passport:

Other:

For transfers:

Was a copy of your ID taken: No Yes

Was a receipt given for the transaction: No Yes

Please return a copy of the receipt with this question sheet.

Comments regarding your transfer or receiving experience:

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Appendix (C). Community Newspapers Accessed to Find Local ARS Agents

Community Newspapers	Reference
Indian Link	Edition: April 2012 Vol.2 No.11
Oriental Post	Edition: 01/06/2012 ISSN: 1447-9176
Australia Asia Business Weekly	Edition: 07/06/2012 ISSN: 1836-1234
Oriental Leisure & Living	Edition: 08/06/2012 ISSN: 1447-9176
Australian Migration Times	Edition: 25/05/2012 Vol. 77
Australian Chinese Times	Edition: 13/06/2012 ISSN: 710
The Epoch Times Perth Edition	Edition: 09/06/2012 ISSN: 1839-0676