

# National risk assessment 2022 – Hawala

TRANSFERS OF VALUE THROUGH ALTERNATIVE PAYMENT SYSTEMS

**A REPORT BY:** The Swedish Companies Registration Office, the Swedish National Council for Crime Prevention, the Swedish Economic Crime Authority, the Swedish Estate Agents Inspectorate, Swedish Financial Supervisory Authority, the Swedish Enforcement Authority, the County Administrative Board of Skåne, the County Administrative Board of Stockholm, the County Administrative Board of Västra Götaland, the Swedish Police Authority, the Swedish Inspectorate of Auditors, the Swedish Tax Agency, the Swedish Gambling Authority, the Swedish Bar Association, the Swedish Security Service, Swedish Customs and the Swedish Prosecution Authority

**Published by:** The Swedish Police Authority  
**Registration number:** A243.461/2023  
**Version:** Revised version, May 2023  
**Printed:** Police printing house Stockholm, May 2023  
**Graphic form:** Blomquist Communication, blomquist.se

# Summary

This is the third report from the coordination function on the joint risk assessment for money laundering and terrorist financing in Sweden. The scope of the report is limited to value transfers in alternative payment systems where settlement (equalization) takes place after the transaction. In this report, these transfers of value are referred to as hawala transactions. The 2022 risk assessment aims to identify potential threats, vulnerabilities and risks if hawala, as a money transfer system, is used to carry out transactions for the purposes of money laundering or terrorist financing.

Hawala is an old, informal system of money transfer that generally relies on local intermediaries (aka hawaladars or brokers) around the world who vouch for their clients' credibility in an exchange that involves the transfer of assets. The amount of money in the transaction can then change hands between individuals in completely different locations, often through cash deposits and withdrawals at the establishment run by the local brokers. The accumulated value of these payments is then settled between the brokers on an aggregated level, which can be compared to a form of value equalization.

The hawala system is well established in Sweden and brokers are legitimate businesses under Swedish law. In Sweden, consumers mainly use hawala to transfer money (remittances) to relatives in countries with which they have close ties. The reason certain consumers choose hawala over the regular banking system or international payment service providers is that hawala is often the only option available for international transactions to certain countries in the world, including countries without a reliable banking system.

While hawala serves an important function for many consumers as a system for cross-border money transfers, and sometimes constitutes an important complement to traditional payment systems in parts of the world, the hawala system has certain characteristics that make it attractive for illegal purposes. The operational structure of the system increases anonymity and makes it difficult to trace monetary transactions within the systems. Since hawala is still largely a cash-based system to some extent, it is an attractive target for money laundering. There is also a risk that the hawala system will be used as a channel for terrorist financing. Intelligence data from law enforcement authorities and recent court rulings show that hawala is being used for criminal purposes. There are also strong indications that there is a large number of illegal and unregistered businesses in Sweden that offer hawala services without authorisation from the Swedish Financial Supervisory Authority.

The hawala system is known to be used for money laundering and terrorist financing. Both the threat level and vulnerability level are assessed as level 4, the highest level. This assessment is based on the structure of the system, as it increases the ability of actors to remain anonymous and makes it difficult to trace monetary transactions within the systems. Since hawala is still largely a cash-based system to some extent, it is an attractive target for money laundering. The characteristics of the hawala system thus make it attractive for illegal purposes.

This report also sheds light on legal regulations related to hawala – from the authorisation and registration process and applicable regulations, to the inventory that the Swedish Financial Supervisory Authority has performed of institutions that they consider to provide hawala services. Finally, the report presents a list of measures that can be taken to better address the potential risk posed by hawala. This includes proposals to:

- raise the thresholds for registration with the Swedish Financial Supervisory Authority
- reduce the possibilities for cash used for criminal purposes to physically enter and exit the country
- evaluate how operational inter-agency cooperation can most effectively prevent the illegal use of hawala.

# Contents

<b>Summary</b>	<b>3</b>
<b>Definitions for this report</b>	<b>5</b>
<b>1. Introduction</b>	<b>6</b>
1.1 Purpose and goals	6
1.2 The coordination function	7
1.3 Boundaries	7
1.4 Method	7
1.5 Target group	7
1.6 Regulations	8
<b>2. What is hawala?</b>	<b>9</b>
2.1 Traditional hawala	9
2.2 Why do consumers in Sweden use hawala?	10
2.3 Payment methods used in hawala	11
2.4 Inherent vulnerabilities for money laundering and terrorist financing	11
2.5 Role of money couriers in hawala	14
<b>3. Legal regulations</b>	<b>17</b>
3.1 Businesses authorised by the Swedish Financial Supervisory Authority	17
3.2 Companies registered with the Swedish Financial Supervisory Authority	17
3.3 Money laundering regulations and the Swedish Financial Supervisory Authority's money laundering supervision	18
3.4 Types of institutions offering hawala – payment institutions and registered payment service providers	19
3.5 Supervision and intervention options for agents of payment service providers	20
3.6 Operators under the supervision of the Swedish Financial Supervisory Authority who are considered to provide hawala services	21
3.7 Hawala operations outside the supervision of the Swedish Financial Supervisory Authority	24
3.8 Hawala in the tax law system	25
<b>4. Risk analysis and impact assessment</b>	<b>28</b>
4.1 Definitions of threat, vulnerability and consequence	28
4.2 Premises	29
4.3 Threats	29
4.4 Vulnerabilities	32
4.5 Assessed risk for money laundering and terrorist financing	35
4.6 Consequences of money laundering and terrorist financing from a national perspective	35
<b>5. International outlook</b>	<b>36</b>
5.1 The hawala system – international overview	36
5.2 Unregulated and unauthorised hawala is the norm in some parts of the world	36
5.3 International aid through hawala	37
5.4 Successful international cases within Europol	37
5.5 A case comparison in the Nordic region – Finland	38
<b>6. Primary obstacles to preventing, detecting and addressing illegal hawala</b>	<b>39</b>
<b>7. Proposed actions</b>	<b>41</b>

# Definitions for this report

<b>Payment institutions</b>	A limited liability company or an economic association that has been granted authorisation to offer payment services in accordance with Ch. 2 of the Payment Services Directive (2010:751).
<b>Payment services</b>	Financial services as defined in Ch. 1, Section 2 of the Payment Services Directive (2010:751).
<b>Payment service providers</b>	Providers of payment services; a comprehensive list can be found in Ch. 1., Section 3 of the Payment Services Directive (2010:751).
<b>De-risking</b>	When an operator makes a principled decision to terminate a customer relationship or reject the establishment of new customer relationship with a certain category of company or certain groups of individuals.
<b>Administrative regulations for money laundering</b>	Money Laundering and the Financing of Terrorism (Prevention) Act (2017:630), also known as the Anti-Money Laundering Act and Swedish government regulations.
<b>Criminal money laundering regulations</b>	The Act on Penalties for Money Laundering Offences (2014:307) and the Terrorist Offences Act (2022:666).
<b>Hawala</b>	Value transfers in alternative payment systems where settlement takes place after the transaction.
<b>Hawaladar</b>	Operators who offer hawala services (also called hawala brokers).
<b>Correspondent relationships</b>	The provision of banking services by a correspondent bank to another bank, including the provision of account related services, such as liquidity management, international transfers, trade finance and currency exchange services.
<b>Money transfer</b>	A payment service where funds are received from a payer, without a payment account being opened in the payer's or recipient's name, solely for the purpose of transferring the corresponding monetary amount directly to a recipient or another payment service provider acting on the recipient's behalf, or where these funds are received on the recipient's behalf and made available to the recipient.
<b>Registered payment service providers</b>	A natural person or legal entity which acts a payment service provider and is exempt from the requirement for authorisation in accordance with Ch. 2., Section 3 of the Payment Services Directive (2010:751).
<b>Currency exchange (aka bureau de change)</b>	Professional trade in foreign bills and coins, including traveller's checks issued in foreign currency. Requires registration with the Swedish Financial Supervisory Authority in accordance with the Act on currency exchange and other financial services (1996:1006).

# 1. Introduction

This is the third report from the coordination function on the joint risk assessment for money laundering and terrorist financing in Sweden.

The scope of the report is limited to value transfers in alternative payment systems where settlement takes place after the transaction. In this report, these transfers of value are referred to as hawala transactions.<sup>1</sup>

It is important to take a risk-based approach in the work to combat money laundering and the financing of terrorism in order to achieve an effective, resource-efficient regime where different parts of society work together. In Sweden, actors from a variety of segments are affected, with supervisory authorities, law enforcement authorities and operators (private actors) being the most relevant. In addition, certain parts of civil society are also involved in the effort to combat money laundering and terrorist financing. The effort to prevent money laundering and terrorist financing does not only take place within Sweden, it also extends beyond Sweden's borders. On the global level, Sweden's fight against money laundering and terrorist financing includes cooperation within the Financial Action Task Force (FATF), and at EU level, through legislation, guidelines and recommendations.

Under the Money Laundering and the Financing of Terrorism (Prevention) Act (2009:62), the coordination function shall work to continuously identify, map and analyse risks and methods for money laundering and terrorist financing in Sweden. In addition, the coordination function shall compile (annually or in response to new risks or changes in the risk profile), update and publish national risk assessments for money laundering and the financing of terrorism to the necessary extent.

During 2018–2019, a risk assessment was carried out for money laundering and the financing of terrorism based on a systems approach. After the 2020/2021 national risk assessment, the focus was shifted to a sector- and operator-based perspective. This year's risk assessment will therefore focus on value transfers through alternative payment systems, where settlement (value equalization) takes place after the transfer. The starting point for this assessment is the hawala system.

## 1.1 Purpose and goals

Hawala was also included and addressed to a certain extent in the 2020/2021 national risk assessment. The significant risks that were highlighted in that report revealed the need for a deeper understanding of hawala and the associated risks.

The purpose of the national risk assessment is to identify, understand and assess the risks of money laundering and terrorist financing within a defined area. The 2022 risk assessment aims to identify potential threats, vulnerabilities and risks if alternative payment systems (using hawala as a basis) are used to carry out transactions for the purposes of money laundering or terrorist financing.

The risk assessment also aims to identify the impact that the use of hawala for money laundering or terrorist financing purposes can have on different parts of society. The goal is also to identify risk-mitigation measures that can be strategically applied to combat money laundering and the financing of terrorism in this area.

---

<sup>1</sup> These systems occur in a number of variations in different parts of the world, but hawala is the established collective name to refer to systems that operate according to certain principles.

## **1.2 The coordination function**

The coordination function was created in 2018 to handle measures implemented to combat money laundering and terrorist financing. The coordination function consists of the following 16 authorities: The Swedish Companies Registration Office, the Swedish National Council for Crime Prevention, the Swedish Economic Crime Authority, the Swedish Estate Agents Inspectorate, Swedish Financial Supervisory Authority, the Swedish Enforcement Authority, the County Administrative Board of Skåne, the County Administrative Board of Stockholm, the County Administrative Board of Västra Götaland, the Swedish Police Authority, the Swedish Inspectorate of Auditors, the Swedish Tax Agency, the Swedish Gambling Authority, the Swedish Security Service, Swedish Customs and the Swedish Prosecution Authority, as well as the Swedish Bar Association. The risk assessment is the result of a joint effort between the members of the function.

The work to compile this year's risk assessment has mainly been carried out in a small project group consisting of members from the Swedish Security Service, the Swedish Police Authority through the Financial Intelligence Unit, the Swedish Financial Supervisory Authority, the Swedish Economic Crime Authority, the Swedish Tax Agency, the Swedish National Council for Crime Prevention and Swedish Customs.

## **1.3 Boundaries**

The scope of this risk assessment is limited to value transfers through alternative payment systems, where settlement takes place after the transfer. The starting point for this assessment is the hawala system.

The report will look at legitimate hawala activities and present an analysis and risk assessment of the risk that hawala will be used to conceal criminal proceeds or finance terrorism. Examples of legitimate uses of hawala brokers include payments to aid organizations and the transfer of income to family members abroad (remittances), while transactions that form part of a chain in terrorist financing or money laundering schemes are criminal acts.

When hawala is used for money laundering and terrorist financing, it is sometimes linked to other types of criminal activity. This may include tax offences and accounting crimes. Hawala operations used for these purposes may also overlap with other priority risk areas, for example, currency exchange, the export of cash and more extensive financial crime schemes. We will also touch on these risk areas and their links to the hawala system in this report.

## **1.4 Method**

This report is based on quantitative data and qualitative reasoning. The quantitative data consists, in part, of data reported to the Swedish Financial Supervisory Authority, intelligence information gathered by the Financial Intelligence Unit and the Swedish Security Service, as well as statistics from Swedish Customs and the Swedish Tax Agency. The report is also based on international comparisons.

## **1.5 Target group**

The intended recipients of this risk assessment are mainly the operators who are directly and indirectly affected by the content in this risk assessment, the Government Offices and the members of the coordination function.

## **1.6 Regulations**

The effort to combat money laundering and the financing of terrorism is built on two sets of regulations: administrative and penal. Two pieces of framework regulations form the basis of Sweden's efforts to combat money laundering and the financing of terrorism.

The administrative regulatory framework, the Money Laundering and the Financing of Terrorism (Prevention) Act (2017:630) is central and aims to prevent and combat the use of financial activities and other business activities for the purposes of money laundering and the financing of terrorism. The penal framework aims to prosecute individuals who engage in money laundering or terrorist financing and is mainly embodied in the Act on Penalties for Money Laundering Offences (2014:307) and the Terrorist Offences Act (2022:666).

# 2. What is hawala?

## 2.1 Traditional hawala

The Financial Action Task Force (FATF) defines hawala and other similar alternative transfer systems as systems that arrange for the transfer and receipt of funds or equivalent value and settle through trade, cash and net settlement over an extended period of time. What distinguishes these alternative transfer systems from other money transfer services is that their method of settlement usually occurs outside the traditional banking system.

The term hawala is usually associated with money transfer systems that originated in South Asia and which has links to traditional trade routes in the Middle East and parts of East Africa.<sup>2</sup> Generally speaking, hawala schemes rely on local brokers, sometimes referred to as hawaladars. These individuals can be located around the world, and they vouch for their clients' credibility in an exchange that involves the transfer of assets. The amount of money in the transaction can then change hands between individuals in completely different locations, often through cash deposits and withdrawals at the establishment run by the local brokers. The value of these payments is settled between the brokers. Therefore, there is not always a direct flow of money between the sender and recipient. No flow of money is required between the brokers for each individual transaction, instead the amounts are settled between the brokers on an aggregated level, which can be compared to a form of value equalization. When the physical movement of money does actually take place, this often involves money couriers who act on behalf of the hawala broker to transport the funds according to a determined route. The hawala system is often organized internally based on different roles, with individuals carrying out tasks of varying complexity, and with actors based both inside and outside of Sweden.

Hawala and similar payment systems are thus characterized by features that differentiate them from traditional payment systems, and the primary function of these systems is often the transfer of cash. Today, it is also common for other payment methods to be used in these systems in addition to cash, for example, traditional banking transactions, remittances via payment service providers, digital applications or payment with cryptocurrencies, which is largely dependent on what is feasible based on the established infrastructure in each country.

Although the average transaction in these systems often involves smaller amounts of money, larger amounts can also be transferred this way. In cases where the basic area of use is legitimate financial services, users of these services are often migrants who are sending money to their home country (remittance). This is common in countries with a large diaspora population. Local hawala brokers sometimes have connections to a specific ethnic population, but often offer services to individuals outside of that specific group as well. Often, a hawala broker is part of a network of hawaladars with extensive international reach, where trust between the operators in the system is the most important commodity.

---

2 The FATF's report "The role of hawala and other similar service providers in money laundering and terrorist financing", October 2013.

## 2.2 Why do consumers in Sweden use hawala?

In Sweden, consumers mainly use hawala to transfer money (remittances) to relatives in countries with which they have close ties. Transfers mainly originate from OECD countries and are sent to developing countries, but since the specific service consumers use is often well established within a diaspora population, transfers can also take place between OECD countries.

Transfers can also be sent in the opposite direction, i.e. where the final recipient is in Sweden or other OECD countries. However, this is not as common. The purpose of using hawala for such transfers can include payments for school fees, healthcare costs, purchase of property in any OECD country and the payment of inheritance.

The reason certain consumers choose hawala over the regular banking system or international payment service providers is that hawala is often the only option available for international transactions to certain countries in the world. Not all parts of the world, or all parts of some countries, have access to a fully functioning banking system. It can also be the case that there are no correspondent relationships between Swedish banks and banks in the recipient country. This applies to countries such as Iran, Somalia, Yemen, Syria, Iraq and Venezuela, which are associated with an extremely high or high risk of money laundering or terrorist financing. Often, companies and individuals in Sweden who try to send money to a bank in one of these countries have their transactions cancelled and refunded because Swedish banks are unable to complete the transactions.

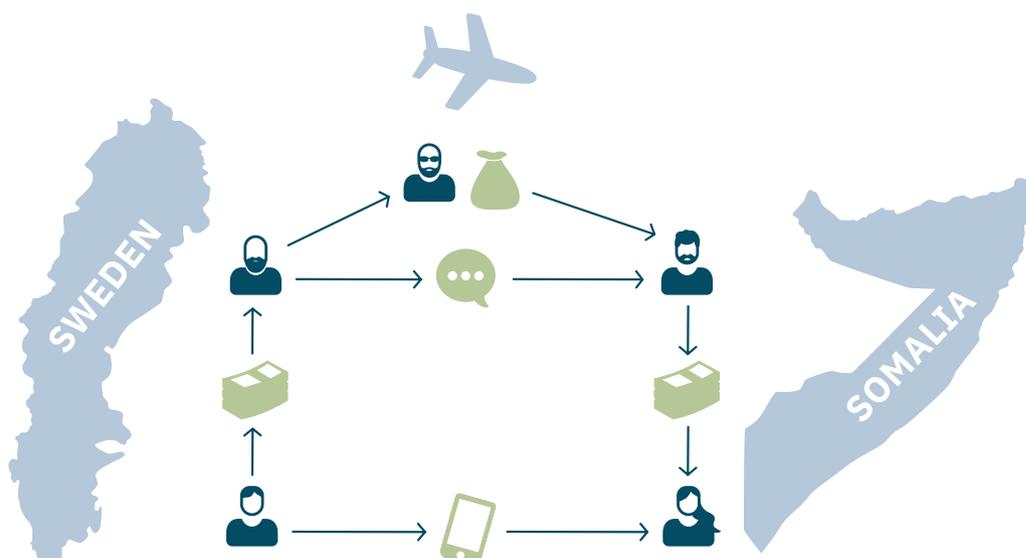
It is also known that aid organizations and individuals in Sweden who wish to send money to relatives and friends are unable to complete the transactions as their banks are not able to carry out the transactions due to the risk of money laundering and terrorist financing. This lack of formal banking relationships means that in many cases hawala is the only cost-effective and reliable way to send money to certain countries. This includes either a direct transfer from Sweden or the physical movement of cash to another country and then using a hawala service.

Furthermore, hawala systems offer a relatively fast, cheap and simple way to transfer money, which can be attractive when compared to international bank giro transfers, which can be costly and can take several days to complete.

In countries that have only a partially functioning banking system, the receipt of international payments can be associated with significant costs and inconvenience, as the recipient may need to travel to a financial center just to receive the money. In addition, it is not possible to use digital banking services in a lot of countries, which is why, for example, a recipient who lives in a rural area may have to travel a long way to physically collect cash at a bank office. By using the hawala system, the recipient can receive the same amount of money at a lower cost from an agent in their local area.

## 2.3 Payment methods used in hawala

Below is a diagram that shows how hawala transactions are carried out.



**Figure 1.** Example of traditional hawala.

### 2.3.1 Direct transfer through value equalization – traditional hawala

An individual wishes to send money to another country. The money and a fee are collected by the hawaladar in the country from which the money is sent, Country A. The hawaladar in Country A notifies the hawaladar in the destination country, Country B, to pay the funds to the recipient in Country B, in this example Somalia. For this type of transfer, no direct transfer of funds occurs; the hawaladar in the destination country uses his or her own funds to pay the recipient. The recipient typically needs to enter a predetermined code to be able to withdraw the funds. For a certain period of time, this will be compensated by transactions going in the other direction, so that you “clear” the transactions. If a net debt arises due to an imbalance in the transaction flow, a settlement or equalization is performed, for example, via bank transactions or money couriers. This flow is illustrated below in Figure 1. This method can also involve more parties, for example, through triangular transactions. The value equalization that occurs after the transfer can also be a more complicated process than what is described above. A traditional hawala system can also be connected with modern payment services, which means that all or parts of a transaction chain can include digital transactions.

## 2.4 Inherent vulnerabilities for money laundering and terrorist financing

While alternative payment systems serve an important function for many consumers and sometimes constitute an important complement to traditional payment systems in parts of the world, these systems have certain characteristics that make them attractive for illegal purposes. These systems have an operational structure that leads to unreliable documentation and traceability, which enables users to remain anonymous. Since the system is largely a cash-based system to some extent, the problems generally associated with cash also apply to the hawala system. This payment system is therefore considered to be highly vulnerable to money laundering. There is a risk that the system will be used as a channel for terrorist financing, for example, through transactions sent to conflict zones or areas with weak financial infrastructure or where targeted financial sanctions have been introduced.

The hawala system can also be used for other criminal purposes. This means that there is a risk that legitimate money that is intended, for example, for use in state-funded aid projects, may end up in the same pool as illegal funds upon settlement if the hawala system is used to transfer these funds. An aid donor is thus unable to verify that the funds will not be commingled with criminal assets at a later stage. There is then a risk that legitimate activities and legitimate purposes will indirectly become part of the illegal economy. There is an inherent vulnerability to money laundering and terrorist financing when legitimate funds are commingled with criminal proceeds.

#### **2.4.1 Use of hawala for criminal purposes in Sweden**

As described above, hawala is deemed to be vulnerable to money laundering and terrorist financing. This assessment is supported by police intelligence and recent court rulings, which show that hawala is being used for criminal purposes in Sweden. The hawala system can be used to launder money, evade taxes, circumvent sanctions, finance terrorism and violent extremism, or for other serious crime. In Sweden, criminals frequently use of the hawala system, for example, as a channel for financing and reinvesting in large-scale drug trafficking schemes. It is important to note that the recipients of this type of transaction are often located within the EU (see fact box below). Due to their operational structure, there is a risk that informal payment systems will create a breeding ground for parallel societal structures, particularly in cases where large financial sums are exchanged and handled within illegal systems.

#### **Example hawala case**

In June 2020, the police raided a currency exchange (bureau de change) on Södermalm in Stockholm after an extended period of surveillance. The currency exchange office, which was registered with the Swedish Financial Supervisory Authority as a payment service provider, was being used as a bank for criminal networks in order to deposit cash and to pay and receive payment for illicit drug transactions. During the search, the police found cash equivalent to approximately SEK 15,000,000 hidden in concealed spaces.

In addition to deposits, currency exchanges and withdrawals, the exchange office carried out hawala transactions for the criminal networks. These transactions were conducted entirely outside the traditional banking system and were based on contacts between individual hawaladars. The currency exchange office and its staff were cooperating with hawaladars operating in Sweden through a well-developed international network that included hawaladars in other countries, such as the Netherlands and Spain.

The criminals used the hawala transfers to send and receive payments for drug deals that were completed outside of Sweden. The ruling in the case shows that each transaction was recorded in a secret ledger and that banknote numbers were used for identification; the recipient received the money after identifying himself/herself by presenting a note with a certain number.

The ruling shows that the amount of money that the currency exchange office transferred via hawala over a period of just under 1.5 years totalled approximately SEK 99,000,000. The money has likely been used within the framework of organized drug trafficking. One of the individuals, who was convicted of gross money laundering, acted as a hawaladar and an enabler by offering and executing transactions through his/her hawala network.

In addition to the above mentioned payment methods, other methods can also be exploited for criminal purposes. This includes the payment of invoices or the use of other documents to make transactions look legitimate, as well as transactions that include the large-scale exchange to cryptocurrencies. International criminal hawala schemes include what is known as trade-based money laundering<sup>3</sup>, as well as terrorist financing, where the compensation of value occurs through over- or under-invoicing of services or goods.<sup>4</sup>

In the majority of cases, hawala services have been part of well-developed payment networks that have been developed specifically to enable illegal activities, for example, to enable the purchase and sale of large illegal drug consignments around Europe.

Police intelligence and preliminary investigations show that criminal hawala operations have been carried out in Sweden at, for example, currency exchange offices, payment service agents, travel agencies, grocery stores, electronics stores or other small businesses. These may involve companies that have explicitly presented themselves as legitimate, for example, by maintaining a shop front. In some cases, these companies have obtained the requisite authorisation or are even registered with the Swedish Financial Supervisory Authority for, for example, currency exchange services.

The Swedish Security Service's overall assessment of the hawala services in Sweden is that the majority of individuals and businesses have no authorisation to offer and conduct financial services. Examples include travel agencies and small grocery stores, but it also includes other types of business. There are also private individuals who are not associated with any form of business activity who offer access to informal transfers.

#### **2.4.2 Currency exchangers – central operators in hawala for criminal purposes**

Intelligence information strongly suggests that some companies registered to offer currency exchange services are, in practice, operating as a platform for hawala transfers. For example, there are registered currency exchange operators who offer hawala for a legitimate purpose but where the activity itself is conducted under an incorrect registration, as the currency exchange operators do not have authorisation for money transfers (see section 3 below). A bigger problem, as can be seen, for example, from the Svea Court of Appeal's ruling<sup>5</sup> dated 2 November 2022, is that some currency exchange operations are used exclusively as direct criminal tools, and that the business acts as a platform for criminal purposes. A tell-tale characteristic of this type of currency exchange operation is that they are usually registered with the Swedish Financial Supervisory Authority and ostensibly provide legitimate financial services in addition to currency exchange, for example, as agents for international payment service companies. But what is clear from the available intelligence and recent court rulings is that one of the central purposes of such activities may be to launder, store, exchange and transport criminal proceeds on behalf of criminals or on the operator's own behalf.

The purpose of these operations may also be to facilitate transactions intended to finance terrorist activities or to support violent extremist groups. In these cases, transactions carried out through hawala services can play a central role. The capacity of these operations to carry out criminal activities can, in many cases, be very high. A survey and analysis of currency exchange businesses carried out by

---

3 Sham transactions between companies for the purpose of money laundering.

4 FATF report *Trade Based Money Laundering*, June 2006.

5 Judgement in Svea Court of Appeal dated 2 November 2022, case number B 1718-22.

the Financial Intelligence Unit shows that the names of the businesses and their agents often appear in intelligence related to serious criminal activity, for example, money laundering and other financial crime.

According to information from the Financial Intelligence Unit and other sources, there are also strong links between courier operations and currency exchange offices, both in Sweden and abroad. It is not possible to say for certain the extent to which these courier businesses are linked to hawala for the purposes of money laundering and terrorist financing.

### **2.4.3 Payment service companies – remittances through hawala**

In addition to currency exchange businesses, there are also a number of payment service companies operating in Sweden that act as money transfer agents, i.e., for so-called remittances. In most cases, these companies use hawala as part of their payment chains, for example, by combining traditional hawala methods and modern payment services. This may include agents and money couriers. These companies are often authorised to offer money transfer services by the Swedish Financial Supervisory Authority. According to the Financial Intelligence Unit and the Swedish Security Service, however, there are cases where these operators have connections to money laundering and other financial crime, as well as to environments where violent extremists are active.

In such cases, legitimate transactions can be commingled with criminal proceeds, which likely occurs both intentionally and unintentionally on the part of the operator. These kinds of operations can be described as a hybrid between legitimate activities and hawala services for criminal purposes, which is also consistent with descriptions previously presented by the FATF.<sup>6</sup>

The broad mix of transactions and the general vulnerability to money laundering and terrorist financing that characterizes the sector make it difficult to audit and detect deficiencies in these types of businesses. Large cash flows, limited traceability and cross-border transactions mean that the risk of money laundering and terrorist financing is high within money transfer services in general. More specifically, the transactions take place wholly or partially outside the regular financial systems.

## **2.5 Role of money couriers in hawala**

### **2.5.1 Both legitimate and criminal purposes**

Since cash is commonly used in hawala transfers, the physical transportation of cash in various forms plays a central role. Both the illegal and legal transport of cash across national borders take place within hawala systems, often through couriers. It should therefore be emphasized that the transportation of cash can be done for legitimate purposes, but this is under the condition that the Money Laundering and the Financing of Terrorism (Prevention) Act (2017:630) is followed, as well as the requirements for notification to Swedish Customs according to applicable regulations.

Criminal actors who generate proceeds from criminal activities often need to separate the proceeds from the crime that has been committed. This can be done, for example, by physically transporting cash across national borders, either by repatriating the funds or moving the funds to jurisdictions where it can be more easily entered into the legitimate financial system. According to the FATF, the physical transport of cash across national borders is one of the oldest and most

---

<sup>6</sup> The FATF's report "The role of hawala and other similar service providers in money laundering and terrorist financing", October 2013.

basic approaches to money laundering.<sup>7</sup> It is widely known that the use of money couriers, partly within hawala systems, forms a central part of many common money laundering approaches. Actors whose aim is to finance terrorism often have the same need to launder money. In terms of terrorist financing, cash is commonly used, for example, to raise funds and as a means of payment both in Sweden and abroad. For example, funds can be raised with cash in Sweden and then sent via hawala to a country in or near a conflict zone. For example, networks of couriers are used to move money between and within Iraq, Syria and Turkey.<sup>8</sup>

The total volume of money exported by money couriers in different forms is difficult to assess, which also means that estimates of the volumes specifically linked to hawala activities are highly uncertain. It is likely that large amounts of cash exit Sweden without being detected, with destinations in third countries which, according to regulations, should have been reported to Swedish Customs. Added to this is the large-scale transport of cash within the EU, often by land.

According to Swedish Customs' figures for 2021, the equivalent of approximately SEK 125 million was declared on export and the equivalent of approximately SEK 22 million on import. It is not possible to assess how much of this cash is transported within the hawala system. The figures likely indicate a substantial dark figure; for example, the courts have assessed that criminal actors in a single case exported cash at an amount that exceeds these figures in less than a single year.<sup>9</sup>

Based on the available intelligence, it can be stated that the volumes of cash illegally transported by couriers by air can amount to millions of krona on a single occasion. Both Swedish and foreign currency are carried in and out of the country across Sweden's borders. Depending on the method used for export (usually over land or by air), and the destination, the purpose of cash exports can vary. In the Financial Intelligence Unit's assessment, common reasons for the export of cash are remittances to third countries, the exchange of currency in another country for criminal purposes, turnover from criminal proceeds or money laundering schemes. However, the explanations the couriers themselves provide may differ from the real purpose. Common explanations are inheritance; the sale of property, a business or other asset; and payment from an employer.

### **2.5.2 Recipient countries with a high risk of money laundering and terrorist financing**

According to intelligence estimates, a large portion of the cash that is transported out of Sweden with destinations outside the EU goes to Dubai, Turkey, Lebanon, Tunisia, Iran, Iraq and Thailand, among others. Several of these countries are also among the list of countries of origin when cash is brought into Sweden. Some of the above-mentioned countries can be considered financial hubs, and some have been placed on the FATF's "grey list" because strategic deficiencies in countering money laundering and terrorist financing have been identified.<sup>10</sup>

Terrorist organizations also use these financial and logistical hubs as intermediaries for a variety of transactions. These transactions can involve funds collected that are sent to terrorist organizations in different parts of the world, money that is intended to fund terrorist attacks in the Western world or the redistribution of funds in a certain region. The influence and power a terrorist organization has over a region

---

7 FATF, Money Laundering Through the Physical Transportation of Cash, 2015, p. 3.

8 2022 National Terrorist Financing Risk Assessment, US Department of Treasury, p. 6.

9 Judgement in Svea Court of Appeal dated 28 October 2022, case number B 10512-22.

10 FATF, Jurisdictions under Increased Monitoring, 2022.

changes over time and determines how important a particular financial center is in terms of the flow of money through the region for the purpose of terrorist financing.

### **2.5.3 Swedish currency is common**

It has not been possible to perform a survey of the countries within the EU that receive cash through couriers as in these cases, there is no requirement to report cash to Swedish Customs. However, Swedish Customs has noted that large sums of cash are moved out of Sweden to third countries, mainly by air. This cash is then moved to countries that have been identified by the FATF as hubs for money laundering. Any natural person traveling into or out of the EU who carries cash equal in value to EUR 10,000 or more is obliged to report this to the competent authorities of the member state through which the person travels to or from in the EU/EEA. Within the EU, individuals from Sweden do not need to declare imports or exports. However, legislation within the EU member states looks different, and some EU countries require individuals to declare cash amounts exceeding EUR 10,000 when travelling within the EU.

Swedish Customs does not normally investigate money laundering crimes, but if there is a suspicion that cash that is being taken out of the country originates from criminal activity, the case is handed over to the Swedish Police Authority or the Swedish Economic Crime Authority. If there is suspicion of terrorist financing, the case is handed over to the Swedish Security Service, which is the only authority to investigate such crimes under the Terrorist Offences Act (2022:666).

In several cases where Swedish Customs has been involved through the seizure of cash, a large proportion of the seized amounts were in Swedish currency.

Although the volumes that are specifically associated with hawala transactions are difficult to assess, it can be stated here that a high proportion of the Swedish currency that is moved out of Sweden through couriers, sometimes amounting to many millions of krona per trip, often lacks legitimate uses abroad. In many cases, it is financially disadvantageous to exchange Swedish currency abroad as the exchange rate is worse. This supports the assessment that the export of cash may be tied to criminal activity, and that the goal of the physical transport of cash is to avoid monitoring from business operators in Sweden. The same assessment can of course be made for other currencies, but when it comes to EUR and USD, for example, these currencies are more likely to have natural uses in international markets.

# 3. Legal regulations

In the assessment of the Financial Supervisory Authority, there are currently 42 institutions that are registered with the Financial Supervisory Authority that are deemed to provide hawala services. Below we provide a description of the authorisation and registration process, the applicable regulations, and the inventory that the Swedish Financial Supervisory Authority has performed of institutions that they consider to provide hawala services.

Hawala activities are permitted under Swedish law, but there is no separate authorisation or registration that an operator can request or apply for in order to offer this service. Instead, hawala is considered a money transfer operation, which is a payment service that a business operator is allowed to offer provided that the operator holds authorisation to offer money transfer services.

## 3.1 Businesses authorised by the Swedish Financial Supervisory Authority

In order to be allowed to operate a business that offers financial services, operators need to obtain authorisation from the Swedish Financial Supervisory Authority, in most cases.<sup>11</sup> Companies that receive authorisation fall under the supervision of the Swedish Financial Supervisory Authority. The Swedish Financial Supervisory Authority's supervision activities are based on an assessment of the risk profile in various businesses and how significant the negative consequences would be for society or consumers if irregularities do occur. The specific requirements that are imposed on specific businesses and what the supervisory activities of the Swedish Financial Supervisory Authority entail are regulated in the various business laws, which are rules for specific types of business.<sup>12</sup> In addition, in principle all companies that are granted authorisation are subject to the Swedish Financial Supervisory Authority's money laundering supervision activities in accordance with the Money Laundering and the Financing of Terrorism (Prevention) Act (2017:630).

## 3.2 Companies registered with the Swedish Financial Supervisory Authority

In addition to businesses subject to the authorisation obligation, there are businesses that are only registered with the Swedish Financial Supervisory Authority. These businesses are financial institutions and savings institutions (including savings and loan associations).<sup>13</sup> Financial institutions can conduct either currency exchange, which includes cash-to-cash transactions, or other financial activities. For example, companies that trade in virtual currency (cryptocurrency) fall under the same legislation. Other financial operations can be, for example, lending to businesses.

---

11 This applies to banks, payment service companies, companies that operate in exchanges and clearing, mutual funds, insurance companies, insurance brokers, mortgage institutions, consumer credit institutions, credit market companies, issuers of electronic money and securities companies.

12 Examples are the Banking and Financing Business Act (2004:297), the Act (2010:751), the Payment Services Directive (2010:751) and Securities Market Act (2007:528).

13 See the Act on Currency Exchange and Other Financial Services (1996:1006) and the now repealed Deposit-taking Activities Act (2004:299) (certain companies that were registered before the repeal of the law may continue to conduct deposit-taking activities).

Companies registered with the Swedish Financial Supervisory Authority are not subject to the Swedish Financial Supervisory Authority's stability and consumer protection supervision. On the other hand, the companies are normally under the Swedish Financial Supervisory Authority's money laundering supervision and in most cases are obliged to comply with the administrative regulations for money laundering. Registered companies can also conduct activities that require individual authorisation, such as authorisation for money transfer services. In these cases, it is the service that the company offers that requires authorisation, not the business itself. When submitting an application for registration of the business, an ownership and management suitability assessment is carried out, as well as a review of the conditions for compliance with money laundering regulations. For deposit institutions and savings and loan associations, a check is also performed to ensure that they meet the requirements for equity and that they will inform prospective customers that deposited funds are not covered by the government deposit insurance scheme.

### **3.3 Money laundering regulations and the Swedish Financial Supervisory Authority's money laundering supervision**

A vast majority of the companies that are authorised by or registered with the Swedish Financial Supervisory Authority, including payment service providers that provide hawala services, are obliged to comply with money laundering regulations and are under the Swedish Financial Supervisory Authority's money laundering supervision.

In addition to the PTL, the regulations payment service providers are subject to and thus required to comply with are the Swedish Financial Supervisory Authority's regulations (FFFS 2017:11) regarding measures against money laundering and terrorist financing, as well as Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006). The various acts are usually collectively referred to as the administrative regulations for money laundering.

The administrative regulations for money laundering are risk-based regulations, which means that those who are obliged to comply with the regulations have knowledge of the risks of money laundering and terrorist financing. The regulations also require operators to take effective measures to counteract these risks in their operations. The regulations are also characterized by a risk-based approach, which means that operators are required to take risk-based measures to prevent the business from being used for money laundering and terrorist financing. The measures that must be taken depend on the specific risks encountered in the business, but the basic principle is that the greatest amount of resources should be allocated to the part of the business where the risks are assessed to be the most significant.

In addition to the risk-based approach, the administrative regulations for money laundering impose a number of different requirements on operators to take certain actions. For example, operators are required to perform a general risk assessment, to establish routines and guidelines for customer due diligence, to carry out monitoring and reporting, and to perform a risk assessment of customers, all of which must be based on the general risk assessment and the requirements to implement customer due diligence measures.

The regulations also establish requirements for operators to continuously perform checks on customers and their transactions. Operators may not establish a business relationship with a customer if it is suspected that the services the operator provides will be used for the purposes of money laundering or terrorist financing.

No transactions may be executed if it is reasonable to suspect that the transaction is part of money laundering or terrorist financing scheme, or if there is insufficient knowledge about the customer and there is no possibility to monitor and assess the customer's activities. Suspicious transactions and activities must always be reported to the Financial Intelligence Unit.

Operators who are under the Swedish Financial Supervisory Authority's money laundering supervision are obliged to comply with the administrative regulations on money laundering and to assist the authority in verifying compliance. The Swedish Financial Supervisory Authority has the power to carry out a number of different supervisory measures to verify compliance with the regulations. In the event that deficiencies are identified, it is ultimately the various business regulations that determine the type of intervention the authority is able to apply. Some of the measures that the Swedish Financial Supervisory Authority typically applies are orders to make corrections, sanction charges and ultimately – in the case of particularly serious violations – the revocation of the operator's authorisation or registration.

### **3.4 Types of institutions offering hawala – payment institutions and registered payment service providers**

Hawala and other similar money transfer services are considered a form of payment service. The definition of a payment service follows from the EU's revised Payment Services Directive (PSD2)<sup>14</sup>, implemented in Swedish law through the Payment Services Directive (2010:751). PSD2 defines eight different payment services. If a service falls within any of the definitions, it is considered a payment service and then becomes subject to the regulations therein. One of the payment services in the directive is money transfer (Ch. 1, Section 2 p. 6 LBT), and this includes services that offer hawala services and other similar transactions.

According to Ch. 1, Section 4 of the Swedish Payment Services Directive, a money transfer is defined as a payment service where funds are received from a payer, without a payment account being opened in the payer's or recipient's name, solely for the purpose of transferring the corresponding monetary amount directly to a recipient or another payment service provider acting on the recipient's behalf, or where these funds are received on the recipient's behalf and made available to the recipient.

Authorisation for money transfer is granted through a separate application to the Swedish Financial Supervisory Authority and can be granted to several different types of institutions, including banks, credit market companies, payment institutions and registered payment service providers. It is important to note that since hawala and other similar services are a form of payment service, authorisation is required for money transfer (however, see below regarding agents) in order to provide the service. In the event that an operator offers the service without authorisation or by virtue of a different authorisation, for example, authorisation to provide currency exchange services, the operator must submit an application for the correct authorisation and the Swedish Financial Supervisory Authority can order the operator to do so or impose a fine. The Swedish Financial Supervisory Authority can also order any natural person or legal entity that offers hawala services without a money transfer authorisation to cease operations. Such an order may also be issued in combination with a fine. Of the payment service providers that provide hawala services under a money transfer authorisation, the Swedish Financial Supervisory Authority has

---

14 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.

identified the institution categories, payment institutions and registered payment service providers, which are defined and regulated in the Swedish Payment Services Directive.

According to the general rule in Ch. 2, Section 1 of this directive, the provision of payment services is an activity that is subject to an authorisation obligation. Payment institutions are required to apply for such an authorisation, and it is the Swedish Financial Supervisory Authority that reviews these applications. Payment institutions must meet a number of obligations, including capital requirements, capital base requirements and consumer protection requirements. However, payment service providers that meet certain criteria can apply for an exemption and can instead be registered as a registered payment service provider, which imposes fewer rules on the operator but also limits the payment volumes the company is allowed to handle. PSD2 allows Member States to grant exemptions, but whether they choose to do so is voluntary. Sweden allows operators to apply for an exception through a provision in Ch. 2., Section 3 of the Swedish Payment Services Directive. According to the provision, the Swedish Financial Supervisory Authority shall decide on exceptions if the average of the total payment transactions during the last 12 months does not exceed an amount corresponding to EUR 3 million per month. The provision also contains requirements for an ownership and management suitability assessment (Ch. 2., Section 3, 2–5 of the Swedish Payment Services Directive). A registered payment service provider can therefore be described as a payment institution that handles a limited payment volume. This means that a registered payment service provider can handle a payment volume of approximately SEK 360 million per year while it is registered. In the event that the maximum payment volume is exceeded, the registered payment service provider must instead apply for authorisation to be one of the payment service providers subject to the authorisation obligation. Registered payment service providers are not subject to the same consumer protection and stability requirements as payment institutions.

Both payment institutions and registered payment service providers must submit information to the Swedish Financial Supervisory Authority annually. This information is part of the supervisory activities that the authority performs in order to ensure that operators are fulfilling the conditions set out in the Swedish Payment Services Directive (LBT) and the Money Laundering and the Financing of Terrorism (Prevention) Act (PTL). The reporting requirements that apply to payment institutions include information on capital base and capital requirements, payment volume and methods used to safeguard customer funds, as well as information on money laundering. Registered payment service providers are subject to simplified annual reporting requirements, including information on payment volumes and methods used to safeguard customer funds, as well as information on money laundering.

### **3.5 Supervision and intervention options for agents of payment service providers**

Both payment institutions and registered payment service providers are allowed to use agents, which are businesses that carry out payments through the system operated by the payment institution or registered payment service provider. These agents generally do not engage in financial activities as their main area of business. The agents often operate grocery stores, hair salons, travel agencies, etc. This means that it is possible for customers to send and receive money by using local businesses close to their homes. The agent structure in Sweden is in line with the EU's first

payment service directive and has been implemented in Swedish law through Ch. 3. of the Swedish Payment Services Directive.<sup>15</sup>

With respect to payment services, the activities performed by agents are considered to be part of the activities of the payment institution or the registered payment service provider. This means that the payment institution or the registered payment service provider is fully responsible for the actions of the agent, and that it is not possible to draw a clear boundary between the institution and the agent. The payment institution or the registered payment service provider is responsible for ensuring that the agent complies with money laundering regulations.

Payment institutions have the option to passport their operations within the EU, which means that they can use their existing authorisations issued in the EU country where their business is registered to conduct operations in other EU countries.<sup>16</sup> In this case, the payment institution does not need to apply for a new authorisation in each member state where the payment institution wishes to establish operations. The payment institution simply needs to open its own business or register agents in other member states through an administrative procedure. The basic principle under this arrangement is that the operator-agent relationship must be registered. However, an ownership and management suitability assessment is carried out, and in some cases, registration is denied, for example, in cases where the agent's management has been convicted of financial crime.

Since the payment institution is fully responsible for the activities of the agent, any rule violations committed by the agent can lead to interventions and sanctions against the payment institution. For the purposes of supervision, agents are not considered independent entities, and the Swedish Financial Supervisory Authority is therefore not able to directly intervene with respect to the activities of agents who violate regulations. If a payment institution is based in another member state, it is up to the supervisory authorities in that state to carry out interventions.

Registered payment service providers may have domestic agents, but they do not have the opportunity to passport the business to other EU member states and cannot register agents in other member states. For cross-border operations, operators therefore need to establish a subsidiary or branch in the other member state and then apply for an exception to become a registered payment service provider (in the event that the member state allows exceptions) and for authorisation to again provide payment services in that country.

### **3.6 Operators under the supervision of the Swedish Financial Supervisory Authority who are considered to provide hawala services**

In 2022, there were 49 registered payment service providers and 56 payment institutions in the Swedish Financial Supervisory Authority's company register. An inventory of these 105 institutions has shown that 42 (38 registered payment service providers and 4 payment institutions) provide value transfers that are assessed as hawala services. These 42 institutions were identified based on the operational plans and other documentation that the institutions have submitted to the Swedish Financial Supervisory Authority in connection with the application for registration or

---

15 Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC. (The directive no longer applies after the introduction of PSD2.)

16 Passporting means that operators based in an EEA country may conduct business in another EEA country by providing services from the home country, without the need to establish a branch in the country where the services are provided.

authorisation or reauthorisation in accordance with PSD2. Based on the review of the activity descriptions, the Swedish Financial Supervisory Authority has been able to determine the system the companies' use for value transfers.

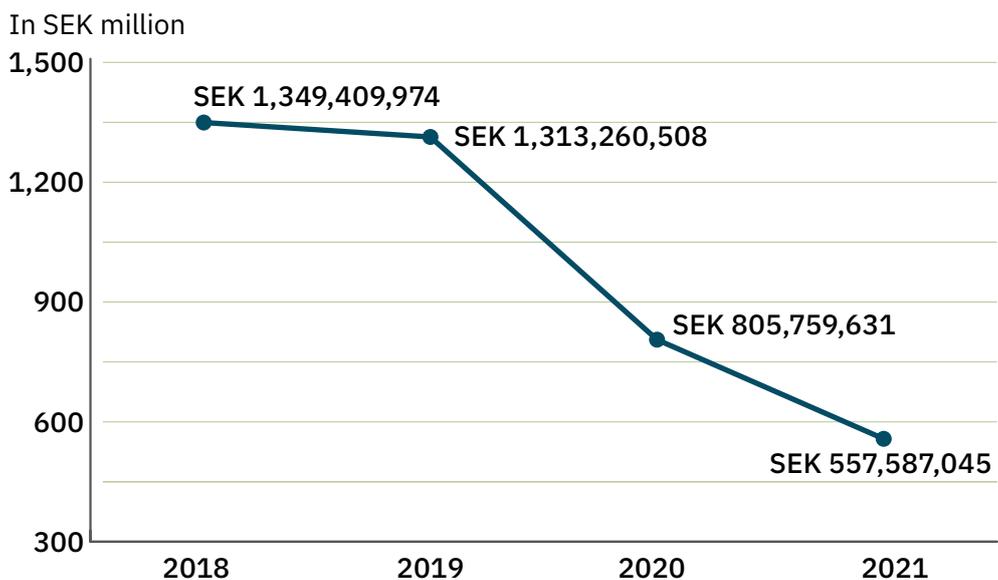
The Swedish Financial Supervisory Authority has determined that the arrangements the different companies use for hawala transactions do not differ to any significant extent, but follow roughly the same pattern. As can be seen from the description of the phenomenon in section 2 above, value transfers made through the hawala system require four parties: a sender, a recipient and two payment intermediaries (brokers). The transaction is then carried out in several steps, where the sender pays broker A, who transfers the payment to the recipient through broker B. The transactions are usually executed without any direct transfers between brokers A and B; the payments are instead settled afterwards through transfers that "equalize" the balance on both sides of the transfer. This basic set-up applies to all 42 identified companies, with some minor variations.

Hawala transactions can, in principle, be carried out completely without the use of technology and without any contact with the traditional financial system, although the modern hawala system tends to have a more advanced infrastructure. However, the review of the set-up used by the identified companies has shown that in these businesses, the traditional financial system is primarily used for the transactions that settle the balance between the brokers. The Swedish Financial Supervisory Authority's review has also shown that the majority of the identified companies have cooperation agreements with large payment intermediaries in, for example, Dubai, which is a hub in the international hawala system, and through which most transfers to the Middle East and Africa take place. Furthermore, the companies usually offer different technical platforms and mobile applications for the receipt of payments from the sender. What the Swedish Financial Supervisory Authority has been able to determine based on the information that the companies have provided is thus largely consistent with the general description of hawala that law enforcement authorities have identified through intelligence and court rulings.

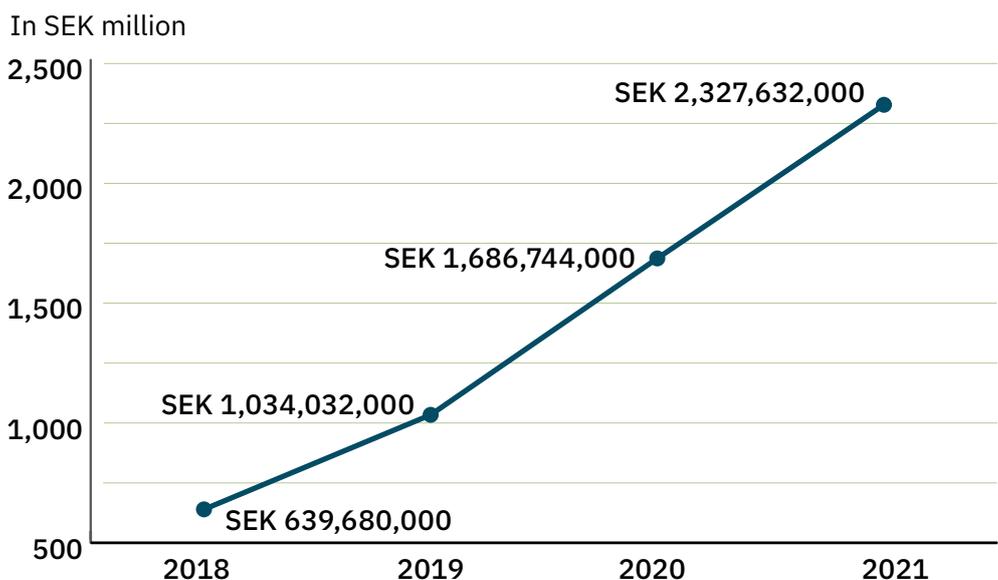
As described above, both the payment institutions licensed under the LBT, and registered payment service providers are obliged to annually submit information on payment volumes and other information to the Swedish Financial Supervisory Authority. Based on this information, the Swedish Financial Supervisory Authority has been able to generate a quantitative estimate of the extent of hawala in Sweden through official operators under the supervision of the Swedish Financial Supervisory Authority (see section 3.3 regarding unregistered actors). As shown in Figure 1, the total payment volume for the 38 registered payment service providers that also provide hawala services amounted to approximately SEK 558 million in the 2021 financial year, which likely consists almost exclusively of hawala transactions. Figure 2 shows that the total payment volume for the 4 payment institutions was approximately SEK 2.3 billion during the same period.

The figures illustrate that while the volumes handled by registered payment service providers have decreased between 2018–2021, the volumes handled by payment institutions have increased during the same period. One possible explanation for this could be that registered payment service providers are more likely to encounter difficulties in establishing and/or maintaining banking relationships, which affects turnover.

**Figure 1.** Payment volumes for registered payment service providers 2018–2021.



**Figure 2.** Payment volumes for payment institutions 2018–2021.



Of the institutions identified as companies that provide value transfers through informal payment systems, 12 institutions have active agent relationships, with a total of 64 agents. The institution's reported payment volumes must also include the activities of the agents. As mentioned above, the agents are not considered independent entities for the purposes of supervision and are therefore not obliged to report payment volumes and submit periodic money laundering reports to the Swedish Financial Supervisory Authority. The Swedish Financial Supervisory Authority is not able to reliably assess whether and to what extent hawala activities are carried out by agents, which is why the figure for agents is considered a dark figure.

## **3.7 Hawala operations outside the supervision of the Swedish Financial Supervisory Authority**

Below is a description of operators who are known to offer hawala transactions but do not have the required authorisation to offer such services to Swedish consumers and are not registered with the Swedish Financial Supervisory Authority.

### **3.7.1 Currency exchange operators (bureau de change)**

Companies that offer currency exchange services are required to register with the Swedish Financial Supervisory Authority in accordance with the Act on currency exchange and other financial services (1996:1006) (LVA). In accordance with Section 1 of LVA, currency exchange is the trade in foreign bills and coins, including traveller's checks issued in foreign currency. Currency exchange therefore refers to cash-to-cash transactions, and the requirements placed on currency exchange operators under LVA include compliance with money laundering regulations and the maintenance of a certain level of consumer protection. Companies registered under the LVA are subject to the Swedish Financial Supervisory Authority's money laundering supervision (Section 10 of the LVA). When a currency exchange operator registers with the Swedish Financial Supervisory Authority, the business's ability to comply with applicable money laundering regulations is assessed and an ownership and management suitability assessment is carried out (sections 2–4 LVA). Registration to provide currency exchange services is also open to other types of financial institutions, for example, payment institutions and registered payment service providers. In these cases, currency exchange is offered as a service in addition to the payment services the operators already provide. Currency exchange operators can also act as agents for payment institutions and registered payment service providers in accordance with Ch. 3 of the LBT.

Currency exchange operators may not offer money transfer services through the currency exchange registration (except in cases where the currency exchange operator is a registered agent and carries out transactions on behalf of other companies, see section 3.5). This means that if a currency exchange operator offers hawala services, the operator is doing so without the correct authorisation, which is not permitted. Although providing financial services without the correct authorisation or registration does not constitute a crime under the penal code, any operator who carries out transfers without authorisation as a payment service provider may be subject to administrative penalties issued by the Swedish Financial Supervisory Authority. The handling of cash is widespread within hawala networks, and there are indications that currency exchange businesses offer hawala services despite lacking the proper authorisation.

It is difficult to estimate the magnitude of the payment volumes that currency exchange operators handle through hawala transactions, as they do not submit their own reports regarding volumes. There is therefore no reporting from the sector that can serve as a basis for reliable estimates. Instead, what we do know about hawala activities in the sector comes from criminal investigations, police intelligence and court rulings. It is therefore also not possible to estimate to what extent hawala activities are conducted by currency exchange operators with the "wrong" registration or authorisation, and how much is pure criminal activity conducted by operators who exploit the registration for cash handling to carry out criminal schemes, for example, through hawala-like services.

### 3.7.2 Businesses offering hawala services without authorisation or registration

There are also a number of companies and types of businesses that offer hawala services that are not financial institutions, such as shops, travel agencies and grocery stores. These companies are not allowed to carry out hawala activities as they do not have authorisation and are not registered for money transfer. Conducting financial activities that are subject to a registration and authorisation obligation without the requisite registration or authorization can lead to the imposition of a fine or a sanction from the Swedish Financial Supervisory Authority. The Swedish Financial Supervisory Authority can also order that the business cease operations. However, it is not a crime under the penal code. Since companies and individuals who offer hawala services without the necessary registration or authorisation do not report to the Swedish Financial Supervisory Authority, it is not possible to estimate the magnitude of the payment volumes that are handled in this part of the system. Much the same as currency exchange operators, it is also not possible to estimate how much of the hawala activities are carried out for legitimate purposes, for example, remittances. Furthermore, it is difficult to say how much of this activity is purely for criminal purposes and is conducted by operators who intentionally neglect to apply for registration or authorisation in order to participate in criminal schemes.

### 3.8 Hawala in the tax law system

Even if hawala transactions are carried out outside of the traditional banking system, the settlement between hawaladars can have an impact on the tax law system.

This relates to the statement of earnings that must be submitted to the Swedish Tax Agency for foreign payments. According to the Tax Procedures Act (2011:1244), SFL, anyone who acts as an intermediary for direct or indirect payments to or from a foreign country on behalf of natural persons, estates and legal entities (so-called KU80 and KU81, respectively), where the amount exceeds SEK 150,000 per occasion, must submit a statement of earnings to the Swedish Tax Agency (Chapter 23, Section 15 SFL).

A statement of earnings must be submitted for those with unlimited tax liability<sup>17</sup>, both for payments to or from a foreign country. Furthermore, a statement of earnings must be submitted for payments within Sweden between parties with unlimited and limited tax liability.<sup>18</sup>

The banks account for the majority of KU80s and KU81s submitted to the Swedish Tax Agency, but operators who offer hawala services are also subject to the obligation to submit a statement of earnings. Since hawala transactions are settled partly within the traditional banking system, such transactions can leave traces in the form of statements of earnings for foreign payments provided by the banks where the actors have accounts. According to checks carried out by the Swedish Tax Agency, registered payment service providers submitted statements of earnings in 2016 and 2017 for transfers from Sweden to foreign countries amounting to SEK 1.8 billion per year. According to the checks, only a fraction of all registered payment service providers submitted statements of earnings on foreign payments made on behalf of their customers.

---

17 Anyone who is domiciled (resident), habitually resides (permanent resident) or has a substantial connection to Sweden is subject to unlimited tax liability in Sweden. This means that the person is obliged to pay tax in Sweden for all income, regardless of whether the income originates from Sweden or another country.

18 Limited tax liability means that only a certain portion of a person's income, which is connected to Sweden, is taxed here.

The table below shows the totals from the statements of earnings that have been submitted for payments from Sweden to other countries (KU81) for registered payment service providers and their agents during the years 2018–2021. The total represents the total amount from the statements of earnings that has been submitted; it is not possible to isolate what portion relates to hawala transfers or other money transfer.

**TABLE 3.1**

	2018	2019	2020	2021
	SEK 1,350,752,879	SEK 1,426,269,759	SEK 1,141,919,977	SEK 692,845,167

The countries that represented the recipient countries for the most transfers through payment service providers and their agents from Sweden during 2018–2021 are shown in Table 3.2.

The first figure shows that the value of the transactions going to foreign countries from payment service providers and their agents has decreased since 2018. From approximately SEK 1.3 billion in 2018, this figure will be approximately SEK 700 million in 2021. Whether this drop is due to a decrease in transactions or whether it is due to a reduction in the number of payment service providers that submit statements of earnings to the Swedish Tax Agency cannot be determined. Based on the Swedish Tax Agency’s experience, there is likely a dark figure for the reporting of statements of earnings, which makes the Swedish Tax Agency’s checks more difficult and, by extension, makes the effort to combat money laundering more difficult.

**TABLE 3.2**

KU81 2018		KU81 2019		KU81 2020		KU81 2021	
United Arab Emirates	SEK 787,811,571	United Arab Emirates	SEK 773,824,589	United Arab Emirates	SEK 627,889,568	United Arab Emirates	SEK 319,985,729
Uganda	SEK 490,727,604	Uganda	SEK 421,354,762	Uganda	SEK 287,223,688	Lithuania	SEK 83,101,121
China	SEK 15,779,111	Somalia	SEK 56,144,799	Finland	SEK 93,622,937	Uganda	SEK 62,044,656



# 4. Risk analysis and impact assessment

## 4.1 Definitions of threat, vulnerability and consequence

The most important thing when performing a risk assessment is to find a method to assess which risks are greater than others, which in turn makes it easier to determine which measures are needed most.

According to the FATF, risk can be seen as a function of three factors: threat, vulnerability and consequence. A risk assessment for money laundering and terrorist financing is a product or process based on a methodology that is decided by the parties involved. The following definitions are based on the definitions used by the FATF.

A threat is a person or group of people, object or activity with the potential to cause harm to, for example, the state, society or the economy. The threat can be criminals and their facilitators, as well as their funds and activities. Threats are often an important starting point for developing an understanding of the risk of money laundering and terrorist financing. In order to be able to perform the risk assessment, it is therefore important to have insight into the entire chain. In the case of money laundering, this means that we need to understand the criminal acts that generate criminal proceeds, as well as the actual money laundering process used to conceal the origin of criminal proceeds. In the case of terrorist financing, one needs to have insight into both of the origin of the funds and how the funds are used to finance terrorism.

The concept of vulnerabilities comprises the factors that can be exploited by the organisation or individuals that constitute a threat or that may support or facilitate its activities. In this context, vulnerability refers to the weak points in various systems for combating or controlling money laundering and terrorist financing. Vulnerabilities may also include the features of a particular country, sector, a financial product or type of service that make them attractive for the purposes of money laundering or terrorist financing.

Consequence refers to the impact or damage that money laundering or terrorist financing may cause. This includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society as a whole. Money laundering and terrorist financing have both short and long term consequences for the general population, specific groups, the business climate, national and international interests, as well as the reputation and attractiveness of the financial sector in a country. A risk assessment in this area should thus include an assessment of threats, vulnerabilities and consequences.

Given that it can be difficult to determine or estimate the impact of money laundering and terrorist financing, it is generally accepted that an in-depth impact assessment does not necessarily need to be performed, and that countries may instead choose to focus on creating an overall picture of the various threats and vulnerabilities in the respective country.

## 4.2 Premises

Transfers of value through hawala present a number of threats and vulnerabilities which, taken together, create a risk that hawala systems may be used for the purposes of money laundering and terrorist financing. In this chapter, we assess the hawala system's exposure to these risks based on the risk of both money laundering and terrorist financing. This is done according to the following premises:

- The sector is exposed to threats from actors who seek to exploit hawala systems for the purposes of money laundering and terrorist financing. These threats are rated on a scale of 1–4, with 4 being the highest level.
- Vulnerabilities refer to limitations in the sector's ability to prevent money laundering and terrorist financing at an aggregate level. These are also assessed on a scale of 1–4, with 4 being the highest level.

Taken together, threats and vulnerabilities determine the overall risk level for money laundering and terrorist financing through hawala. The level is expressed as a numerical average of these two factors. First, a risk analysis is presented, which is based on assessments of the current threats and vulnerabilities in the sector; then, an analysis of the potential consequences that money laundering and terrorist financing activities within the sector can have for society is presented.

These assessments have been performed based on reports of suspicious activity submitted to the Financial Intelligence Unit, as well as other intelligence gathered by the Police and Swedish Security Service. As described above, at the time of writing, the Swedish Financial Supervisory Authority has not carried out any form of targeted supervisory measures with respect to operators who offer hawala. Therefore, the assessments presented here are not based on experience from supervision. However, the Swedish Financial Supervisory Authority has been able to estimate the risks to a certain degree from a sector-wide perspective based on reported data and other information gathered from authorities.

## 4.3 Threats

### 4.3.1 Anonymity and lack of traceability

The operational structure of the hawala system increases anonymity and makes it difficult to trace monetary transactions within the system. In addition, transfers can be completed almost immediately without leaving a trace in the traditional banking system, which increases the attractiveness of the hawala system for the purposes of money laundering and terrorist financing. This limited traceability applies to both the origin of the funds and the final recipient. In the effort to combat terrorist financing, it is also crucial to be able to identify the recipient of a transaction, which is particularly difficult when hawala systems are used.

There are also indications that threat actors use fake identification documents. At the same time, some money transfer agents lack the ability or willingness to carry out accurate identification verification with respect to their customers. This increases the ability of threat actors to remain anonymous in the sector. By using different operators and splitting transactions into smaller amounts, threat actors can exploit the inconsistent identity verification practices and complete structured money transfers within certain limits to reduce the risk of detection and avoid the requirement to report. This is considered to increase the threat of money laundering and terrorist financing within these hawala systems.

The high degree of anonymity and low traceability that characterizes the hawala system also appeals to actors who would like to exploit the system for purposes other than money laundering or terrorist financing. The system offers an attractive

way to conceal the identity of the sender or recipient of a transaction and is therefore used, for example, by actors who earn money through illegal activity, are residing in Sweden illegally or are using a misused or false identity.

#### **4.3.2 Capacity of threat actors**

Alternative payment systems generally have extensive international reach, which potentially leads to extensive reach for criminals who exploit these systems. In a number of cases, actors who offer hawala services have a high degree of operational expertise, which also contributes to the high threat level.

A hawala system can be complex and well-coordinated on an overall level, and this may require a high degree of skill on the part of the actor who has overall responsibility and control over the system. Each network includes actors with different roles who perform tasks with varying degrees of complexity, where the individuals who perform isolated tasks may have a limited understanding of the whole. For example, a cash courier may have a relatively uncomplicated task, while a hawaladar who is responsible for several collectors has a much more complex role.

Individuals who have overall responsibility for these systems need to have good insight into national and international regulations in order to reduce the risk of detection and identify weaknesses that can be exploited. Hawala is traditionally based on trust and reputation, because the transactions take place outside the traditional financial system. These are characteristics that take a long time to build. Purely criminal transfer systems also include individuals with a high degree of violent capital. This can act as an additional measure of security in cases where trust between actors is not guaranteed.

The capabilities of different threat actors vary, both in relation to money laundering and terrorist financing, but complex, advanced schemes are carried out where threat actors deliberately exploit vulnerabilities in terms of the risk of detection and controls carried out in the financial system.

#### **4.3.3 Regulated and unregulated hawala – scope**

The hawala system in Sweden is thus exploited by criminal actors both for the purpose of laundering money and financing terrorism. However, it is not always possible to clearly distinguish between the two types of crime. Regardless of the type of crime, activities carried out through the hawala system can be divided into two distinct parts: regulated and unregulated activities. However, here, the risk within regulated and unregulated hawala operations is assessed as a whole.

The regulated part includes hawala systems where operators are registered with or authorised by the Swedish Financial Supervisory Authority. As described above (section 2), this part of the system is used partly for remittances with legitimate purposes, but it is also used by criminal actors for purposes including money laundering, terrorist financing and other criminal schemes. The legitimate payment volumes within the hawala system are estimated to be around SEK 2 billion annually.

Among the approximately 40 institutions that the Swedish Financial Supervisory Authority has identified as providing hawala services, a number of businesses appear in surveys conducted by both the Swedish Security Service and the Financial Intelligence Unit.

It is possible for actors to knowingly or unknowingly collect, receive or provide funds that are used to finance terrorism. It is likely that one and the same operator carries out transfers for both legal and illegal purposes. This mix of transactions is one factor

that makes it difficult to detect transfers that take place for the purposes of money laundering or terrorist financing.

It is difficult to estimate the scale of hawala transactions on an aggregate level that are specifically executed for the purpose of financing terrorism, or the extent to which operators knowingly participate in this type of transaction. Many of the places in the world where remittances are sent for legitimate purposes are also home to terrorist groups and terrorist organizations. This makes it difficult to determine which transactions are remittances and which transactions are completed for the purpose of terrorist financing.

Within the unregulated part of the hawala sector, actors often act solely with criminal intent and lack authorisation or registration with the Swedish Financial Supervisory Authority. There is likely a substantial dark figure among these actors. It is common for criminal actors to use this part of the hawala sector, where the link to money laundering within drug offences is particularly pronounced. It is difficult to estimate the extent of the unregulated part of the hawala system, but based on court rulings and police intelligence, it is assessed to be several times greater than the part of the system that includes regulated operators.

The majority of the information the Swedish Security Service has gathered on the risk of terrorist financing through hawala transactions includes individuals and businesses that are not authorised to conduct any form of financial activity. There is therefore a certain degree of overlap and certain discrepancies between the companies identified by the Swedish Financial Supervisory Authority and in the Swedish Security Service's counter-terrorism follow-up, which is likely attributable to a number of factors stemming from the different tasks assigned to the authorities. There is also a similar relationship in terms of the identification of relevant actors between the Financial Intelligence Unit and the Swedish Financial Supervisory Authority.

The businesses that the Financial Intelligence Unit has identified in its counter-terrorism efforts that have not been identified by the Swedish Financial Supervisory Authority include several types of businesses, including unregistered businesses. The businesses are informal in nature in that they rely on an actor's private bank account to carry out transactions, which makes it more difficult to create an overview of the business in order to understand the scope of its activities. In addition, there are a number of businesses that are registered as payment processors and at least appear to conduct legitimate business activities, but whose services and financial infrastructure are used by individuals or companies to transfer money abroad, where it can be suspected that the transactions involve the financing of terrorism.

Hawala transfers make it relatively easy to conceal the identity of the recipient, and hawala is well established in several geographical locations where terrorist organizations and terrorist groups are known to operate. Given what has been presented in this chapter, the assessment is that terrorist financing does occur through the hawala system to a certain extent.

#### **4.3.4 Overall assessment of the threat level**

The threat level for hawala is assessed as level 4, which equates to the highest level. This assessment is based on the fact that overall, the payment method is very attractive to criminal actors. These actors use hawala to a significant extent to move large volumes of criminal proceeds and finance other crime, which is used to send funds both to foreign recipients and recipients within Sweden. In addition, it is assessed that the method is being used for the financing of terrorism, where money is transferred to geographical locations where terrorist organizations and groups have historically been active and are known to be currently active. The

risk is increased as part of the modus operandi is to carry out multiple, smaller transactions and to send to several recipients. As the frequency of transactions is high, the volume of money that is laundered or that is used to finance terrorism and other serious crime is also assessed to be high.

Funds are often transferred through complex payment chains that involve a large number of intermediaries and jurisdictions, which makes it difficult to trace these transactions. Although the total payment volumes handled within these alternative payment systems are believed to be significantly lower than the volumes within other systems (e.g. the banking sector), the payment volumes are still estimated to amount to billions of krona.

## **4.4 Vulnerabilities**

### **4.4.1 Detection of suspicious transactions – monitoring**

Since transfers within the hawala system largely take place outside the traditional financial system, operators often lack the opportunity to detect suspicious transactions through the type of control procedures that are used, for example, in the banking sector.

When transactions leave traces on a bank account, for example, transactions with other financial institutions or when declaring cash exports, there is rarely an opportunity to check the accuracy of the information about the transaction that is registered.

As the sector handles a large number of remittances, as well as other legal transactions mixed with illegal transactions, this also increases vulnerability. The transactions may appear to be similar in nature, but their purpose can be different. Serious operators and authorities are able to recognize what may be considered typical behaviour for a hawala system, but the assessment here is that individual hawala transactions for the purpose of money laundering or terrorist financing are very difficult to detect.

### **4.4.2 Transport of cash across borders**

As the international flow of cash is a central element of hawala networks, the inflow and outflow of cash across borders is a critical link in the payment chain. The flow of cash between Sweden and other EU countries is not subject to a declaration obligation, while there is a declaration obligation for cash going to and from third countries. Both with respect to EU countries and countries in other parts of the world, it is assessed here that there are undetected cash flows from Sweden that involve cash for criminal purposes.

Swedish Customs works to enforce compliance with the declaration obligation for the import and export of cash exceeding EUR 10,000 to or from countries outside the EU. Individuals who fail to comply with the declaration obligation may be charged an administrative fee. Sweden has no regulatory framework that imposes a declaration obligation for the import or export of cash to or from other countries within the European Union.

Swedish Customs does not typically investigate money laundering offences, but if prosecutors request, they can investigate these offences in connection with another criminal investigation. A common scenario is that cash that is seized by Swedish Customs within the framework of a preliminary investigation (e.g. in connection with drug smuggling), and this cash is forfeited rather than carrying out an investigation of money laundering. Swedish Customs has the authority to confiscate cash in excess of EUR 10,000 that is discovered during a customs check when exiting

Sweden to travel to a third country, if it can be suspected that the cash may be part of a money laundering scheme. The seized cash is then transferred to the Swedish Police Authority.

#### **4.4.3 Regulatory compliance**

The level of regulatory compliance within the sector is difficult to assess because hawala is not a branch of activity in itself, but is conducted as an integrated part of regulated payment service companies, or is conducted as an unregulated business without registration and authorisation. Within businesses that offer hawala services without authorisation or registration, it cannot be assumed that regulatory compliance occurs to any significant extent. This does not mean that all transactions in these businesses are carried out for criminal purposes. The key is that no risk assessment or monitoring can be performed for these businesses, and they are carrying out business activities in violation of applicable financial regulations.

Based on the data reported to the Swedish Financial Supervisory Authority through periodic reporting, it is evident that operators who offer hawala services seldom report suspicious transactions to the Financial Intelligence Unit. On the other hand, reports received by the Financial Intelligence Unit from other operators, mainly banks, show that there are many suspected cases of criminal activity connected to hawala. One factor that may increase the vulnerability to money laundering and terrorist financing in the sector is that many registered payment service providers and their agents, many of whom offer hawala, are small and locally based. Suspicious transactions may then be reported to the Financial Intelligence Unit by staff with direct customer contact. Given that there are customers in the sector with a high level of violent capital, there is a risk that operators will fail to report suspicious transactions due to fear of reprisals. Taken as a whole, this increases the vulnerability to money laundering. There are also many smaller actors in the sector who are more likely to depend on recurring transactions.

It is difficult to detect unregistered actors, which creates poor conditions for ensuring regulatory compliance among these actors. As mentioned above, the fact that informal transfer systems can exist completely outside of authorized financial activities is a crucial complicating factor.

#### **4.4.4 De-risking**

As described above, according to the PTL, operators must take measures to counter the risk of money laundering and terrorist financing by applying a risk-based approach. In the event that an operator assesses that it cannot handle the risks associated with a particular customer relationship, the operator is not permitted to establish a relationship with the customer and may not carry out any transactions on behalf of the customer. In the event that after completing an investigation, an operator chooses to terminate a customer relationship due to the inability to manage the risks of money laundering and terrorist financing, the operator is acting in accordance with the PTL. Operators who investigate their customers and then terminate relationships where risks cannot be managed are therefore in compliance with applicable regulations, both with respect to private customers and business customers.

One concern in this area is that operators may choose to terminate customer relationships if they consider it to be too costly and resource-intensive to investigate customers and manage the risks associated with the customer relationship. This is

known as de-risking, which is a growing problem throughout the EU<sup>19</sup>, especially when it comes to access to many of the services and products provided in the banking sector, which individuals and companies rely on in their everyday lives and in their everyday business activities. If we look at this phenomenon through the lens of money laundering and terrorist financing, de-risking can present major risks to financial integrity, as customers may instead turn to financial institutions with more lax money laundering and terrorist financing controls (and higher fees) when banking relationships are terminated. In this sense, de-risking can be seen as a significant vulnerability because customers can be pushed towards operators who have weaker control practices and less capacity or willingness to ensure compliance with money laundering regulations.

Individuals who want to carry out transactions to and from countries that are associated with an extremely high or high risk of money laundering or terrorist financing, who are unable to verify their identity according to the applicable conditions, are at risk of exclusion from the banking system. The fact that banks sometimes end individual customer relationships after performing investigations should not in itself be considered unjustified de-risking, but when groups of individuals are excluded from the banking market because they may carry out transactions that involve a particular country, de-risking becomes problematic. This can force some customers to use services that are completely lacking in effective measures to counter the risk of money laundering and terrorist financing, for example, unregistered hawala actors. There is also a risk that individuals who need to send remittances for legitimate purposes will unknowingly use hawala operators who also act as a channel for criminal transactions. Furthermore, there is no statutory consumer protection for customers when they use unregistered operators, and consumers therefore risk encountering rogue operators and high fees.

#### **4.4.5 Overall assessment of vulnerability**

The vulnerability level for hawala is assessed as level 4, which equates to the highest level. This refers to both regulated and unregulated hawala activities. As a rule, hawala systems have very extensive international reach, where a number of different transaction methods can be used, thus contributing to reduced traceability for the origin of the funds. These systems have an operational structure that often leads to unreliable monitoring, documentation and traceability, which enables users to remain anonymous.

The transfer of money through hawala systems involves a high volume of international transactions that often go to recipients outside the EEA. By comparison, regular international payments usually take one or more days to complete. Since money transfers through hawala can be completed quickly, with no actual transactions occurring at the time of payment, the vulnerability in the sector increases. The fact that the transfers are often initiated and concluded through cash payments increases the attractiveness of hawala for the purposes of money laundering and terrorist financing and thus the vulnerability relative to the ability to perform supervision. Although cash flows often form a central part of the system, account transactions, cryptocurrency exchanges, payment services and Swish are also used. This adds to the complexity of the problem, as it can involve many different sectors, thus making it difficult for operators to monitor, and also complicates supervision activities and law enforcement.

---

<sup>19</sup> EBA/Op/2022/01.

## 4.5 Assessed risk for money laundering and terrorist financing

The risk of money laundering and terrorist financing is assessed by weighing threats and vulnerabilities. Hawala is assigned an overall risk level 4, which is the highest level. As described above, this assessment is based on a number of factors, including the operational structure of the service, the ability to remain anonymous, lack of traceability, scope of criminal activity, the widespread use of cash, rapid transfers to high-risk third countries, the prevalence of businesses operating without registration or authorization and the estimated high payment volumes.

Several of the regulated actors who conduct hawala operations according to the Swedish Financial Supervisory Authority's assessment are registered as registered payment service providers. In NRA 2020/2021, the payment service provider sector was assessed to have risk level 3 (significant). The fact that hawala has a risk level of 4 according to the current assessment can, in addition to the factors above, also be explained by the fact that the current risk assessment includes higher risks linked to terrorist financing.

## 4.6 Consequences of money laundering and terrorist financing from a national perspective

In order to be able to create a national risk profile, the threat and vulnerability analysis has been supplemented with an assessment of the potential consequences of money laundering and terrorist financing through alternative payment systems.

The impact assessment is based on estimates of the total payment volumes within the hawala system, the potential function of these funds in large-scale money laundering or terrorist financing schemes, the potential effects of these crimes on society at large and the potential impact on Sweden's international reputation.

In terms of financial stability, the negative societal effects of money laundering and terrorist financing are lower within hawala than within the regular financial system, as the payment volumes in the hawala system are assessed to be lower in comparison. In addition, there is generally a lack of broad integration with the regular financial system, which reduces the risk that hawala will have negative consequences for financial stability in the event that it is used for money laundering schemes or terrorist financing.

However, the potential effects on society in terms of giving rise to parallel societies, increasing organized crime and channelling criminal profits are very serious. This is because alternative payment systems can be used as part of criminal schemes that systematically generate income, and these systems can thus play a central role in criminal ecosystems and contribute to negative societal consequences.

In its three most recent full-year assessments on the financing of terrorism and on the financing of violent extremism, the National Centre for Terrorist Threat Assessment (NCT) writes: Violent extremist environments are deemed to be a breeding ground for terrorism, and financing that supports these extremist environments thus contributes to the terrorist threat in Sweden. Funds sent from Sweden to finance terrorist activities are also deemed to be a valuable resource to terrorist organizations abroad.<sup>20</sup> One consequence of this is serious harm to Sweden's international reputation.

The overall assessment of the impact if hawala systems are used for money laundering and terrorist financing purposes is at the highest level. This means that criminal exploitation of hawala has a negative impact on society.

---

<sup>20</sup> The National Centre for Terrorist Threat Assessment (NCT), full year assessment 2021.

# 5. International outlook

## 5.1 The hawala system – international overview

Hawala and other alternative payment systems are by their very nature international phenomena with strong links to diaspora populations. Typically, hawala actors are active in parts of the world with a high proportion of foreign labour, which is typically associated with specific diaspora populations. In some countries, hawala brokers act openly in society and their services are openly marketed.<sup>21</sup> This includes the United Arab Emirates, Syria, Somalia and Afghanistan to name a few. This also applies in Sweden in some cases, though to a limited extent and with local exposure. In other countries, hawala is conducted entirely outside of public view, especially where the services are considered illegal.

As described above, the legitimacy of these networks varies; the activities they engage in may be legitimate in principle, but the networks are often used in whole or in part for criminal purposes. Furthermore, the methods used to transfer funds can also vary around the world. For example, the Somali hawala system, which is also active in Sweden, has introduced modern payment solutions within its operational structure. At the same time, more traditional forms of hawala are also maintained within other systems in some parts of the world.

## 5.2 Unregulated and unauthorised hawala is the norm in some parts of the world

In a previous survey conducted by the FATF that included 33 countries, a majority of the countries that responded to the survey indicated that hawala and similar alternative payment systems are not permitted and are thus completely unregulated. The countries that allow such activities, with requirements for registration or authorisation and regulatory compliance, reported that remittances through legal channels have increased. However, the survey also shows that relatively few actors have actually registered or applied for authorisation for hawala activities.<sup>22</sup>

The implementation of effective supervision of alternative payment systems such as hawala is one of the major challenges that authorities and governments need to address. According to the survey, most countries had no dedicated auditors for these activities, and despite the fact that most countries are able to impose sanctions in cases of regulatory violations, this option seems to be rarely used.<sup>23</sup>

In the Nordic region, the alternative payment network in Finland is similar to that in Sweden, and it is possible to conduct hawala activities under regulated forms in both countries. The hawala phenomenon and the approaches used are very similar. The same applies to the strong connections to specific diaspora populations. On the other hand, the number of registered actors in Finland appears to be lower.

---

21 The FATF's report "The role of hawala and other similar service providers in money laundering and terrorist financing", October 2013.

22 Ibid.

23 Ibid.

### 5.3 International aid through hawala

On the international level, hawala systems are sometimes used as a link in the chain to transfer aid money. However, there appear to be capacity limitations for the payment volumes that can be handled in hawala for aid purposes. Examples of countries where aid is sent are Syria and Afghanistan. Humanitarian aid is flown in to Afghanistan in USD bound for banks in the country. These funds are then paid out through the Afghan hawala network. In many respects, the Afghan hawala system can be seen as a very traditional form in terms of its organization and extensive reliance on cash, where the family, tribe and network are central links. This system also shares links to other countries, such as the United Arab Emirates, Turkey, Saudi Arabia and Pakistan.<sup>24</sup>

There is also a risk of increased reliance on informal payment systems when a country is targeted by economic sanctions, where the aim is to avoid currency regulations<sup>25</sup>, or where the actors who use the system are unable to meet the regulatory requirements within the regular financial systems. Of course, this includes the risk that the systems will be used for the financing of terrorism and within violent extremist environments.

The 2020/2021 national risk assessment and international reports show that fundraising organizations are at risk of being exploited, knowingly or unknowingly, for the purposes of money laundering. The organizations are also at risk of being exploited for the financing of terrorism. When preparing this report, a meeting was held with Giva Sverige (the Swedish Fundraising Association) and some of their member organizations to learn more about their experiences regarding potential difficulties in transferring funds to countries associated with a high risk of money laundering and terrorist financing. None of the organizations included in the dialogue have used hawala businesses in Sweden to transfer money, but they have depended on hawala actors in the recipient countries to some extent.

The fundraising organizations report that the unpredictability in terms of the way Swedish banks handle transfers is a problem and that there are also problems linked to correspondent banks. Echoing what was found in the 2020/2021 national risk assessment, some of the fundraising organizations reported that the transfer of funds to higher risk countries could be facilitated if there was a code of conduct where certain requirements were met.

### 5.4 Successful international cases within Europol

In recent years, Europol has led and coordinated a number of successful cases where hawala played a part in criminal activities. These cases have involved large-scale money laundering schemes, where criminal actors have collected and transferred large sums of cash on behalf of criminal organizations. The cash transfer was carried out using the hawala system, and in one case, the criminal actors are suspected of laundering over EUR 200 million over 1.5 years.<sup>26</sup> In another case, the hawala system has been used to launder EUR 300 million annually since 2020. In this case, the criminal actors ran a business offering financial services intended for organized crime. The criminals are believed to have had links to drug trafficking in over 20 countries.<sup>27</sup> In terms of the use of hawala to facilitate terrorist financing, Europol

---

24 Swedish Committee for Afghanistan (SAK).

25 The FATF's report "The role of hawala and other similar service providers in money laundering and terrorist financing", October 2013.

26 [europol.europa.eu/media-press/newsroom/news/one-of-europe%E2%80%99s-biggest-money-launderers-arrested-in-spain](https://europol.europa.eu/media-press/newsroom/news/one-of-europe%E2%80%99s-biggest-money-launderers-arrested-in-spain)

27 [europol.europa.eu/media-press/newsroom/news/europol-supports-spanish-authorities-in-taking-down-europes-biggest-narco-bank](https://europol.europa.eu/media-press/newsroom/news/europol-supports-spanish-authorities-in-taking-down-europes-biggest-narco-bank)

assisted the Spanish police in a case where funds were collected in various European countries through a network and then sent to ISIS members in Syria via Spain.<sup>28</sup> These cases are often incredibly large in scale. This clearly highlights how international crime can be facilitated through the use of these informal payment systems.

## **5.5 A case comparison in the Nordic region – Finland**

In the National risk assessment of money laundering and terrorist financing 2021, the sector assessed to have the highest risk for both money laundering and terrorist financing is the hawala system. The total risk level for the sector is considered to be very significant, which equates to a risk level 4 on a four-point scale. This high level of risk is primarily attributed to vulnerabilities linked to supervision and the limited capacity to trace transfers. Furthermore, since hawala transactions often involve high-risk areas or countries or persons that are subject to sanctions, hawala constitutes a very high geographical risk for money laundering.

Like Sweden, Finland has no special authorisation or registration process for hawala, but operators offering hawala services can be granted authorisation for the provision of payment services. At the time this report was being prepared, 12 hawaladars had been granted authorisation to provide payment services. The method used by the Finnish Financial Supervisory Authority to identify payment service providers that also provide hawala services is comparable to the method used by the Swedish Financial Supervisory Authority, i.e. through an inventory of operational plans and other documentation that the institutions have submitted in connection with reauthorization in accordance with PSD2. On the other hand, the Finnish Financial Supervisory Authority has not been able to quantify the extent of hawala in Finland, which is why the national risk assessment does not include estimates of either payment volumes or the number of customers. This is attributed to deficient reporting on the part of the operators.

---

28 [europol.europa.eu/media-press/newsroom/news/two-arrests-in-spain-for-terrorist-financing](https://europol.europa.eu/media-press/newsroom/news/two-arrests-in-spain-for-terrorist-financing)

# 6. Primary obstacles to preventing, detecting and addressing illegal hawala

Below is an overall assessment of a number of focus areas that have been identified during the work on this report, i.e. the main difficulties in preventing, detecting and addressing illegal hawala.

## **A cross-border phenomenon**

Like many other criminal phenomena, hawala is a cross-border phenomenon. This means that preventive efforts, as well as supervisory work and criminal investigation activities, largely need to be conducted through international cooperation, which is not always possible. Companies engaged in financial operations currently have a host of options to engage in cross-border operations, while supervisory organizations are mostly bound to their national jurisdictions.

## **Legal activities are mixed with illegal activities**

As a method for value transfer, hawala is not in itself illegal and there are many cases where hawala offers the only way to legally carry out a transaction. Still, funds from legal and illegal activities can be sent through the same hawala channels. This makes it difficult to detect the illegal transactions, which offers rogue operators a certain level of protection.

## **Import and export of cash**

Taking cash out of the country is not in itself a crime. There must be substantial grounds to suspect that funds were acquired through criminal activity or a concrete suspicion of terrorist financing, even for inexplicably large sums to be seized and investigated.

- Anyone who transports cash exceeding an amount of EUR 10,000 outside of the EU must declare this to Swedish Customs, but even cash that is declared may have been acquired through illegal activities or may be used for illegal purposes.
- It is known that large sums of cash are transported by land from Sweden to or through other EU countries, and there is a risk that the origin of this cash or purpose of the movement is illegal.
- The import and export of cash is a well-known method of settlement in the hawala system.

One hope is that the new forfeiture legislation proposed in SOU 2021:100 (“New Forfeiture Legislation”) will be able to be applied to certain cash handling activities. A new type of civil forfeiture has been proposed, which will be able to be exercised in certain cases for property that lacks a legal burden of explanation. However, the legislation does not increase the ability to detect cash that is moved in or out of the country.

## **Financial regulations and supervision**

A number of factors associated with financial regulations and different components related to supervision likely present aggravating circumstances in the work to detect, prevent and address illegal hawala.

- Hawala can be conducted within the framework of different financial activities (registered or authorised). This places high demands on supervision. In many cases, illegal hawala is conducted within other types of businesses, such as grocery stores or hair salons. These actors can be very difficult to detect and bring under supervision.
- The requirements to conduct a certain type of financial activity are in some cases set too low. Sometimes only registration is required.
- In some cases, the knowledge certain operators have regarding applicable regulations is low, especially among agents.
- In other cases, operators are well aware of the regulations and the supervision/control system and design their business to give the appearance that they are working according to a risk-based approach. For example, an operator may choose to submit reports to the Financial Intelligence Unit for certain customers and transactions, but may intentionally fail to report the activities of customers that actually present a threat.
- The European single market provides tremendous opportunities for financial institutions to conduct operations from one country that are intended for other EU countries, but supervision only takes place where the actor’s operations are based.
- De-risking is a frequent and increasing practice, which makes it difficult to carry out transactions through hawala, even with legal intentions.

## **Dispersed competence and mandates among law enforcement authorities**

- The competence and ability to detect, investigate and prosecute money laundering offences, terrorist financing and financial crime is spread across several authorities and across different bodies within each authority.
- There is currently no designated resource within the Swedish Police Authority that is specifically tasked with investigating money laundering; this responsibility instead falls largely on the respective region’s fraud units. The Swedish Economic Crime Authority investigates money laundering crimes if the crime relates to money laundering in business activities or if the origin of the money is suspected to be criminal activity in business activities.
- The effort to coordinate the dispersed competencies and resources that do exist sometimes demands more resources than the actual operation. Cooperation often requires advance decisions and planned activities.

# 7. Proposed actions



## Improved cross-border cooperation

Prioritizing international cooperation between both law enforcement authorities and supervisory agencies is essential for effective cross-border cooperation. Today, international cooperation is often task-oriented, handed down to employees within the authorities and often takes a back seat to national issues. Knowledge and understanding of international cooperation are needed if we are to be able to effectively utilise cooperation forums when they are needed most. Issues related to money laundering and terrorist financing and the recovery of criminal proceeds require specialised competencies and contact persons with expert knowledge. The EU Commission's new money laundering package also strives to increase information exchange between different Financial Intelligence Units (FIU), which is much needed and should be monitored by Sweden in the ongoing negotiations.



## Improved approaches to distinguish legal activity from illegal activity

### *Better knowledge and approaches*

This places high demands on knowledge of both legal and illegal activities in order to be able to distinguish between legitimate and illegitimate activities in law enforcement, supervision and control activities. Training initiatives are currently underway within the framework of the operational council initiative, but these are still relatively broad in nature. Authorities also find it difficult to maintain collective knowledge in their organisations when staff with experience and expertise leave. Employees who are tasked with detecting, preventing and investigating complex activities, such as illegal hawala, need to have the right knowledge and need to be able to identify and implement the approaches that create the best conditions for success. This will require increased efforts to strengthen authorities and their personnel in relation to hawala.

### *More effective cooperation*

Currently, the competence, tasks and tools needed to combat money laundering and the financing of terrorism are spread across authorities, as well as within certain authorities. As this type of activity is resource-intensive and difficult to investigate, cooperation needs to be streamlined and efficient.

Against this background, and given the various aspects raised in the report regarding the hawala system, an evaluation should be performed to determine the appropriate focus of this work, as well as the cooperation arrangement, and to determine to what extent a focus on administrative measures would be more resource efficient than a focus on prosecution.



## Higher thresholds for currency exchange and money transfer

Taking into account the extensive risks of money laundering and terrorist financing identified among registered currency exchange operators and registered payment service providers, the thresholds for these activities should be raised. Given the above, it is questionable whether the current registration procedure and the limited supervision that comes with it are always adequate to manage the risks associated with certain types of activities, or whether money transfer and

currency exchange activities should, in some cases, be carried out by operators with a more comprehensive authorisation. This would entail a broader review of existing legislation and regulations (mainly LVA and parts of LBT). It should be emphasized here that granting the ability to register as a payment service provider for authorisation to carry out money transfers is voluntary for EU member states. The purpose of a broader review of high risk financial activities is to improve the Swedish Financial Supervisory Authority's conditions for detecting and preventing companies that are under the authority's supervision from being used in criminal activities, and partly to detect and take action against actors who operate without authorisation or registration.



### **Reduce the possibilities for cash used for criminal purposes to physically enter and exit the country**

Swedish Customs should continue to strengthen its work with more targeted controls for the export of cash. There is an established cooperation between Swedish Customs and other authorities, which should be continued and developed further.

There is currently no declaration obligation for the import or export of cash from Sweden to other EU countries. However, some EU countries (e.g. Denmark) have their own regulations, which include a declaration obligation for the movement of cash to or from other EU countries. It should be considered whether an investigation should be initiated to determine whether national legislation should be introduced in Sweden similar to the above-mentioned legislation in Denmark. Such an investigation should include the impact of such regulations on the operations of Swedish Customs.

Swedish Customs should be able to issue higher administrative fees for violations of the rules for reporting the export of cash.

#### ***Additional, special resources for the investigation of cash smuggling***

Special resources should be allocated to the investigation of cases that involve the smuggling of cash across the border. This would enable a more effective approach to prosecution, especially in cases where the evidence is considered strong.



### **Investigate the possibilities of introducing restrictions on cash payments for larger amounts**

Cash payments have a special status in the payment market because a cash payment means, among other things, that the seller's obligation with respect to the buyer ceases immediately upon payment, and because no intermediaries are required. For smaller amounts, cash payments therefore still play an important role as means of payment. However, when cash payments are to be used for larger amounts, there is an argument in favour of imposing limits on this option. For one, it is difficult to physically handle large amounts of cash, and the rules in both administrative and criminal money laundering legislation create certain difficulties when handling large amounts of cash. Limits could also discourage the use of hawala for criminal purposes. Against this background, it is recommended that an investigation is carried out in Sweden to determine whether it is possible to introduce limits on the option to make payments with large amounts of cash.



### **Highlight and discuss the problems associated with de-risking**

A driving force behind the increasing use of informal value transfer services such as hawala is the increased use of de-risking measures that are becoming commonplace in the Swedish and international financial markets. De-risking simply means that banks and other financial companies choose to reduce their risk based on a general assessment about whether the purpose of a transaction, the countries involved, and customers are associated with high risk, etc. This broad measure is taken rather than identifying and managing risk based on individual assessments of individual customers. It is a global phenomenon that has increased in recent years, in parallel with the introduction of stricter legislation to combat money laundering and terrorist financing. One of the driving forces behind this trend is what is considered to be an effort by financial companies to reduce the risk of regulatory non-compliance in the area of money laundering. In addition to creating problems for individuals, de-risking also has the potential to increase the risk of money laundering and terrorist financing, as financial flows move further out into the margins of the financial system (e.g. to unregulated hawala operations), where the control environment and the organizational ability to counter illegal use is often weaker than it is with larger operators. The prevalence of de-risking and its effects should be clarified further and proposals for countermeasures should be drawn up.

#### ***Introduce some type of code of conduct regarding transactions linked to the fundraising organizations***

Fundraising organizations report that the unpredictability in terms of the way Swedish banks handle transfers is a problem and that there are also problems linked to correspondent banks. Echoing what was found in the 2020/2021 national risk assessment, some of the fundraising organizations reported that the transfer of funds to higher risk countries could be facilitated if there was a code of conduct where certain requirements were met. An investigation should therefore be performed to determine whether it is possible to introduce some type of code of conduct for transactions linked to fundraising organisations.



### **Enable the Swedish Tax Agency to issue additional sanctions**

The Swedish Tax Agency should be able to impose late fees/sanctions on financial institutions in the event of late, incomplete or missing statements of earnings (KU80/81). The information should also be submitted on a form established by the Swedish Tax Agency.



### **Investigate potential benefits of pooled expertise**

In certain countries, the operational capability of law enforcement to detect, prevent and investigate money laundering and related crimes has been brought together under one authority. Sweden could take inspiration and knowledge from how other countries have organized these efforts in order to identify alternatives to the current Swedish model.

# THE COORDINATING BODY FOR ANTI-MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM

---

