

# POTENTIAL RISK

## IN INFORMAL BANKING AND FINANCE

### JOB AID

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**CDSE** Center for Development  
of Security Excellence

**NITOM**  
National Insider Threat Awareness Month



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# INTRODUCTION

**T**rusted insiders, individuals with authorized access to an organization's facilities, information and resources, have the potential to pose a threat to themselves, others and their organization. When given the opportunity, insider threats might commit malicious acts such as fraud, theft, sabotage, espionage, unauthorized disclosure, workplace violence, and more.

An insider may unintentionally put themselves at risk of becoming a threat by making decisions based on a lack of awareness. Insiders may also be vulnerable to targeting due to a period of adversity in their lives and an inability to cope or adjust in a positive way. These decisions often result in the exhibition of behavior that is perceived as risky or suspicious.

An insider's cultural background also influences their behavior. Cultural norms can shape a person's baseline behavior, or what are considered "normal" demeanors or actions in their social networks. These norms may differ from person to person. Without proper context or knowledge, certain cultural practices and associated behaviors may be perceived as risky or suspicious.

This job aid will focus on the cultural practice of informal banking. Informal banking is utilized by individuals from different cultures throughout the world. This job aid will also highlight how participation in these informal financial practices may increase an insider's potential risk of becoming an insider threat.

# INFORMAL VALUE TRANSFER SYSTEMS

Informal value transfer systems (IVTS) are a type of currency exchange that work by transferring value without the need to physically transfer money, relying instead on personal connections between operators in different locations, usually international. IVTS, also known as alternative remittance systems, go by many names: Hawala, hundi, padala, and underground banking. They pre-date western banking systems and date back to 5800 BC.<sup>1</sup>

Generally, an IVTS transaction is used for remittances and works like this:

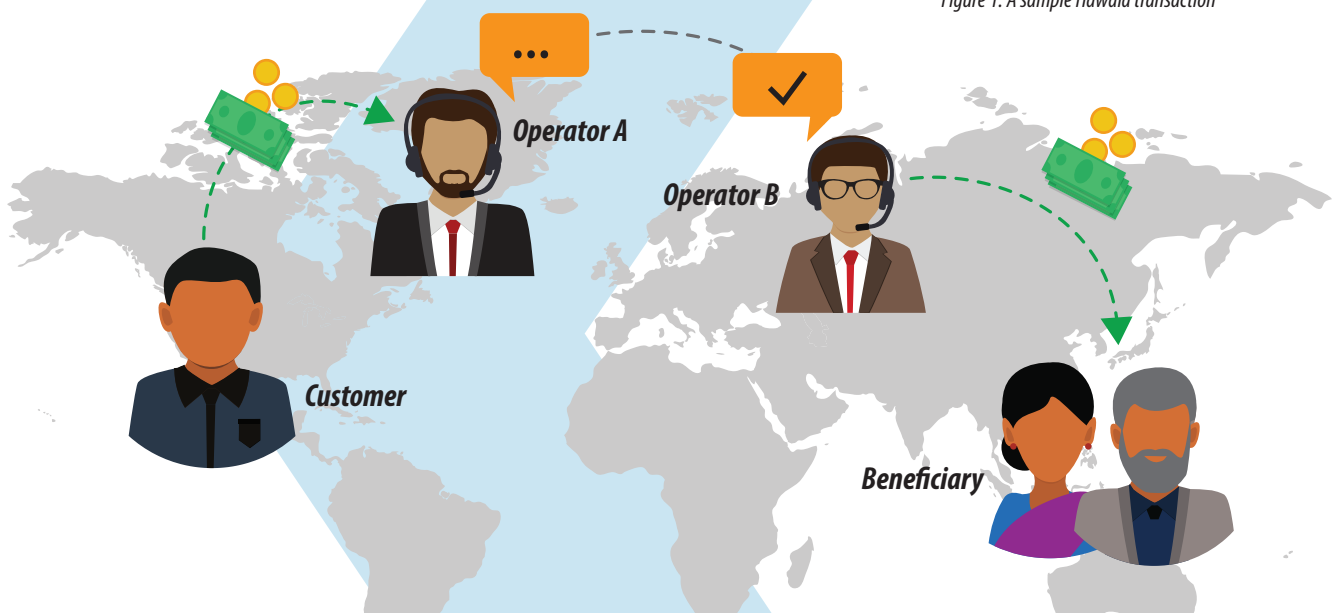


Figure 1: A sample Hawala transaction

- A customer goes to an IVTS operator to transfer funds abroad.
- After agreeing on an exchange rate with the customer, the IVTS operator accepts the funds, generally in cash.
- The IVTS operator then contacts a counterpart in the country the funds are destined for, exchanges details, and provides the customer instructions on how the beneficiary can receive their funds.
- No money is actually sent out of the country during the exchange; the two IVTS operators will settle their accounts at a later time in variety of ways.<sup>2</sup>

IVTS are used by a variety of individuals, businesses, and even government entities to remit funds. They are often used by immigrants and expatriates, along with legitimate companies and organizations conducting business in countries with inadequate or non-existent formal financial systems.

<sup>1</sup> FinCEN Advisory on IVTS: <https://www.fincen.gov/sites/default/files/advisory/advis33.pdf>

<sup>2</sup> The Hawala Remittance System and Its Role in Money Laundering: <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/FinCEN-Hawala-rpt.pdf>

# ROTATING SAVINGS AND CREDIT ASSOCIATIONS

Another related type of alternative, informal banking is the rotating savings and credit association (ROSCA). Known variously as kye, tandas, visi, sou-sou, hui, hagbad, and dozens of other names across cultures worldwide, ROSCA is a micro-finance form of peer-to-peer banking or lending (See Figure 2 on p. 5).

The basic format is the same:

- A self-formed “club” agrees upon a monthly contribution from each member for a defined period, which is given to the “leader.”
- Each member donates the required amount each month, and each month one member takes the whole sum.
- When the ROSCA is complete, everyone has contributed and received the same amount of money.
- For those receiving the sum at the beginning of the ROSCA, it amounts to an interest-free loan; for those at the end, a savings account.

For many immigrant communities in the United States, participating in a ROSCA has provided the large amount of cash needed to start a business or buy a home. Because they operate outside the realm of U.S. banking laws and safeguards, there are no signed promissory notes, paperwork, or proof of distribution. Members instead rely on a sense of shared community trust and the shame that would occur if a participant reneged or absconded with the community pot.

## ROSCAs: Whats in a Name?

Rotating Savings and Credit Associations can be found all over the world and go by different names in different regions and countries.

### AFRICA

**Benin:** *Asusu, Yissirou, Ndjonu, Tontine*

**Cameroon:** *Jangi, Ujangi, Djana, Mandjon, Djapa*

**Egypt:** *Gameya, Jam'iyya*

**Ethiopia:** *Ekub, Ikub*

**Ghana:** *Susu, Nanamei akpee, Onitsha, Nnobia*

**Kenya:** *Mabati, Nyakinyua, Itega, Mkutano ya wanwake, Mkutano ya wazee*

**Liberia:** *Esusu, susu, sau*

**Madagascar:** *Fokontany*

**Mali:** *Pari*

**Nigeria:** *Esusu, Osusu, Enusu, Ajo (Yoruba), Cha (Ibo),*

**Senegal:** *Tontine, Nath*

**Somalia:** *Haghad, Shaloongo, Aiuto*

**South Africa:** *Chita, Chitu, Stokfel, Stockfair, Mahodisana, Motshelo, Umangelo*

**Sudan:** *Khatta, Sanduk, Sandook Box*

**Tanzania:** *Upato, Fongongo*

**Uganda:** *Chilemba, Kiremba, Upato, Kwegatta*

**Zimbabwe:** *Chilemba, Stockfair, Kutunderrera*

### ASIA

**Bangladesh:** *Samity*

**Cambodia:** *Tontine*

**China:** *Lun-hui, Yao-hui, Piao-hui, Hui, Ho-hui, Foei-Tsjing*

**India:** *Kameti, Kuri, Chitty, Chit funds, Vishi, Bishi, Nidhi, Committee*

**Indonesia:** *Arisan, Paketan Daging, Paketan Kawinan, Mapalus, Bajulo julo, Julia-jula, Mengandelek*

**Japan:** *Ko, Kou, Miyin, Mujin, Musin, Tanamoshi*

**Korea:** *Keyes, Kyes, Mujin, Ke*

**Lebanon:** *Al-tawfir el medawar*

**Malaysia:** *Kutu, Kootu, Kongsu, Tontine, Hui, Main, Kut*

**Nepal:** *Dhikur, Dhituti*

**Pakistan:** *Committee, Bisi, Kistuna*

**Papua New Guinea:** *Hui, Sande*

**Philippines:** *Paluwagan, Turnohan*

**Singapore:** *Tontine, Kutu*

**Sri Lanka:** *Chit Funds, Cheetu/Sheetu, Sittu Danawa, Situ Mudal, Sittu Wendesiya*

**Taiwan:** *Hui*

**Thailand:** *Chaer, Hui, Hue, Pia Huey, Len Chaer*

**Vietnam:** *Hui, Hui Thao, Hui hue hong, Hui bac (ho), Yi hui*

**Yemen:** *Hacba*

### LATIN AMERICA, CARIBBEAN

**Bahamas:** *Esu*

**Barbados:** *Meetings*

**Belize:** *Syndicate, Tanda*

**Bolivia:** *Pasanacu*

**Brazil:** *Consortio, Pandero, Sindicatos*

**Curacao:** *Sam, Hunga sam*

**Dominican Republic:** *San*

**Guatemala:** *Cuchubal, Cuchuval*

**Guyana:** *Throw a box, Boxi money*

**Jamaica:** *Partners, (Throw a) Box, Susu*

**Mauritius:** *Pool, Cycle, Sheet*

**Mexico:** *Tanda, Cundina, Mutualista*

**Panama:** *Pandero*

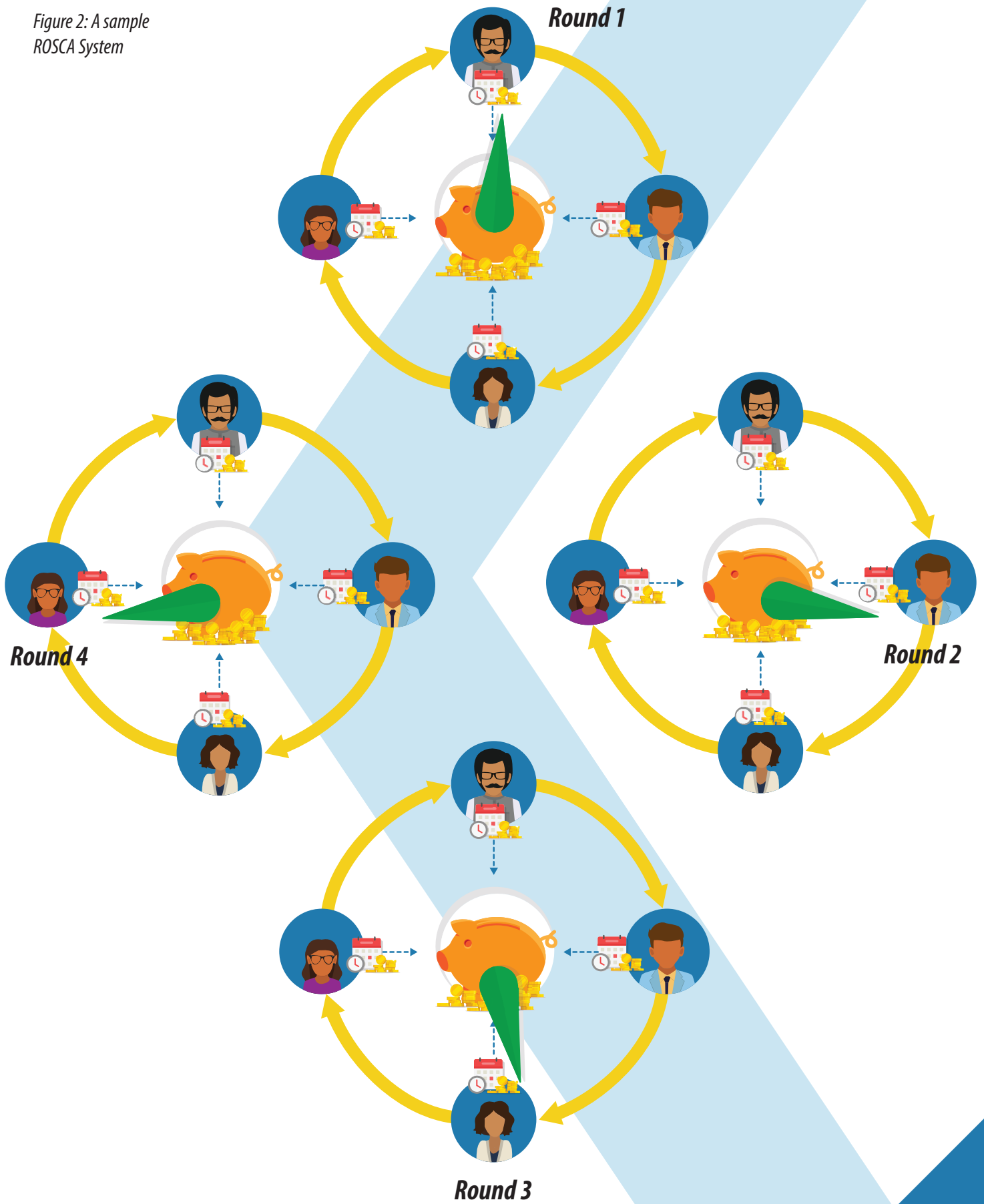
**Peru:** *Pandero*

**Surinam:** *Kasmonie*

**Tobago:** *Susu*

**Trinidad:** *(E)susu, Sou sou, Hui, Chitty*

Figure 2: A sample ROSCA System



# POTENTIAL RISK WITH PARTICIPATION

IVTF, ROSCA, and other types of alternative remittance or underground banking systems serve a legitimate need across cultural and socioeconomic groups, and they may legally operate in the United States if they abide by applicable state and federal laws.

Hawalas are considered by FinCEN to be a money services business (MSB) and must follow the same rules applied to other MSBs (e.g., Western Union), including compliance with the Bank Secrecy Act and registration with FinCEN. Yet enforcement of regulations is difficult. Hawala advertisements are frequently printed in foreign languages, and their ambiguity does not always suggest remittance services.

However, the loans provided through ROSCAs are unsecured and may leave vulnerable people without recourse if targeted by unscrupulous ROSCA leaders or participants.

The same inherent security, anonymity, and versatility that make these types of financial systems attractive to users also provide an attractive target for misuse by criminals. Additionally, the potential for inadvertent missteps or illegal activity is high, such as in the following examples.



- 1 A woman collects several thousand dollars from multiple family members to compile into one larger donation for a cousin who is getting married, **inadvertently becoming an unregistered money services business.**

2

Multiple family members decide to help an elderly relative abroad with the down payment on a house, and they agree to break a combined \$50,000 sum into smaller portions in order to avoid a potential flag on transactions over \$10,000. In doing so, **they inadvertently create a funnel account** (an individual or business account in one geographic area that received multiple cash deposits, often in amounts below the cash reporting threshold. Funds are then withdrawn in a different geographic area with little time elapsing between deposits and withdrawals) by sending a series of smaller, sequential transfers that alert banking authorities to potentially suspicious activity.



# HARDENING THE TARGET

Sending money internationally, giving gifts to non-U.S. persons, and using or participating in IVTS, ROSCAs, and other types of alternative financial systems are not illegal. However, because of associated rules and regulations and the potential for targeting by criminals, it is essential the user is informed and aware.

Providing context to financial institutions for transactions from informal banking may provide some level of protection to users against the risk affiliated with things like Suspicious Activity Reports, autonomously generated reports by financial institutions to provide information related to questionable financial transactions. It is also useful to obtain additional information on rules and regulations to ensure compliance with state and federal law.

However, the best practice to minimize risk when participating in informal banking is self-reporting to an organization's security officer, insider threat program manager, or insider threat program. Trusted insiders with access to classified information or in sensitive roles should self-report any activities related to financial issues or anomalies; attempted elicitation, exploitation, blackmail, coercion or enticement; foreign bank accounts; involvement in a foreign business; continued association with foreign nationals; and more.<sup>3</sup>

Reporting from others can also reduce potential risk that may arise from participating in informal banking. This includes reporting any insider that demonstrates behavior indicative of unexplained affluence or excessive indebtedness, criminal conduct, foreign influence, general unwillingness to comply with security rules and regulations and more.<sup>4</sup> These indicators put your entire organization at risk. You should also report indicators of suspicious use of exhibited informal banking participation or if you are asked to participate in illegal forms of informal banking by others. Reporting potential threats is not only encouraged, it is a shared responsibility.

When potential threats are reported and identified early, it can help insider threat programs to deter, detect and mitigate risk posed from trusted insiders before any harm can occur. These programs comprise security, human resources, cyber, legal and other professionals throughout an organization to gather, integrate, and assess information indicative of potential risk and determine appropriate mitigation response options on a case-by-case basis.



<sup>3</sup> Security Executive Agent Directive 3: Reporting Requirements for Personnel with Access to Classified Information or Hold a Sensitive Role: <https://www.dni.gov/files/NCSC/documents/Regulations/SEAD-3-Reporting-U.pdf>

<sup>4</sup> Security Executive Agent Directive 4: National Security Adjudicative Guidelines: <https://www.dni.gov/files/NCSC/documents/Regulations/SEAD-4-Adjudicative-Guidelines-U.pdf>



# ADDITIONAL RESOURCES

- **FinCEN Advisory: Informal Value Transfer Systems.** United States Department of the Treasury, Financial Crimes Enforcement Network
- **FinCEN Advisory: Foreign-Located Money Services Businesses.** United States Department of the Treasury, Financial Crimes Enforcement Network
- **The Hawala Alternative Remittance System and its Role in Money Laundering.** United States Department of the Treasury, Financial Crime Enforcement Network
- **FinCEN Money Services Business (MSB) Registration.** United States Department of the Treasury, Financial Crimes Enforcement Network
- **FinCEN News: FinCEN Issues Report on Informal Value Transfer Systems.** United States Department of the Treasury, Financial Crimes Enforcement Network
- **Insider Threat Case Study Library.** Defense Counterintelligence and Security Agency, Center for Development of Security Excellence
- **Insider Threat Reporting Procedures.** Defense Counterintelligence and Security Agency, Center for Development of Security Excellence
- **Insider Threat Potential Risk Indicators.** Defense Counterintelligence and Security Agency, Center for Development of Security Excellence