



LET'S TALK ABOUT...

FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Hawala

The subject looks pretty odd and exotic but it is actually related – although indirectly – to the theme of those institutions and regulations acting in the financial markets, that we have been surveying in the latest weeks. As a matter of fact, despite the declared goal of fighting money laundering, the real major purpose of such bodies is tax monitoring and the nullification of privacy, which should be granted to individuals also in their economic and financial domains.

The *hawala* is a traditional institution which may be considered as “alternative” to common money transfer systems and procedures as carried on by banks. It operates through a very large network of brokers – the *hawaladar* – whose positions and jobs may be pretty various, and who may be located in a mean street of New York City, for instance at a small honey shop, or in a *suk* of Dubai, as well in a most isolated village in Pakistan, in a carpet weaving hovel or in the Horn of Africa. The system is solely based on honour and word, with the involvement of no formal and written documents, no records of transactions, recipes, legal or financial frameworks. Just personal knowledge, observance of tradition and mutual trust. The system dates back from the IX Century when it was used in financing Levantine trades. Today it works just the same way: the person who needs to send money somewhere contacts a local *hawaladar* and gives him the amount of money to be sent to another person in another city. The broker calls another *hawaladar* in the destination city, whom he may know directly or via third persons, and gives him instructions to pay to a certain identified person who will come to his place. The transaction will be settled later, through compensations or somehow else. The sending *hawaladar* keeps a small fee for himself and may deal with other related operations, such as changing the money into another currency. The system is efficient, fast and very reliable despite its informality: it is widely used by expatriated workers, also as commissions are usually lower than the ones charged by banks. Moreover banking conditions may be indeed poor or problematic in certain parts of Africa and Asia. Of course it also useful in bypassing non only official exchange rates, but also controls if users were to have legal, tax, immigration problems and so on. The total absence of records and compliance checks makes it disfavoured and opposed by Western governments, although it is well active throughout Europe, the United Kingdom and even the United States, of course besides the Middle East and the Islamic communities worldwide. - *GLT*

The views expressed are not necessarily those of the Swiss Association of Asset Managers
