

Informal fund transfer systems

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Impact Paragraph

— Informal Fund Transfer Systems: Mechanisms, Survival, and Adaptation —

IFT-systems may be unfamiliar to most people who live in western countries. Some people who even know about IFT-systems may think that IFT-systems are outdated in the 21st century, where formal institutions bring their services within everyone's reach through the Internet. However, many professionals and scholars have demonstrated that IFT-systems not only flourish in developing countries where formal financial services are less accessible, but also survive in competition with formal financial institutions in developed countries. This study sought to answer the question why and how IFT-systems, a primitive remittance transfer system, can continue to operate today and adapt to changing environments. This study addressed this question by examining external and internal risks which influence survival and adaptation of IFT-systems. In order to find how IFT-systems respond to external risks, this study developed the global IFT-risk indicator showing the global landscape of IFT-risks. The global IFT-risk indicator suggests that the level of IFT-risk is related to the level of economic development of each country. Given that the survival of IFT-systems is also threatened by the deception and betrayal between the actors in IFT-systems, this study investigated the interactions between the actors by analyzing the Korean IFT-cases. The major findings from the analysis of the Korean IFT-cases are: the actors take some manageable risks and take various measures to deal with the internal risks, rather than distrusting the other party and refusing to cooperate with each other. In order to deal with uncertainty and vulnerability, IFT-users and IFT-brokers not only use the *ex ante* signaling and *ex post* reputation mechanisms, but also the online banking services of formal financial institutions to carry out IFT-transactions. Therefore, given that in developed countries, IFT-systems that are limited to ethnic enclaves have a low priority for law enforcement authorities, IFT-systems may shrink slightly in adverse conditions, but they survive because they can avoid the increased external risks and cope with the internal risks.

This study made a few innovative attempts to capture IFT-risks and IFT-activities that are difficult to identify and address. These efforts may benefit research on elusive

subjects in the field of criminology and crime science. In order to explore the survival and adaptation of IFT-systems from different angles and reveal the hidden aspects of IFT-systems, this study took three pictures of IFT-systems in a stepwise manner: a panoramic shot of the global landscape of IFT-risks, a medium shot of IFT-systems as the illegal remittance market, and a close-up shot of the dynamic interactions between the actors within IFT-systems. The three pictures taken at different levels made it possible to examine the multi-dimensions of IFT-systems from multiple angles. In particular, the panoramic shot was taken using the global IFT-risk indicator — a composite indicator constructed to gauge the distribution of IFT-risks faced by each country. The global IFT-risk indicator was constructed based on the findings from previous studies on IFT-systems that IFT-risk is associated with four IFT-risk elements: IFT-services market size, access to formal financial institutions, compliance of AML/CFT systems with the FATF Recommendations, and societal attitudes towards informality. This was never attempted in previous studies on IFT-systems or even in the field of criminology in general. Composite indicators may become a helpful tool for criminologists who want to study crime risks at macro level and include ‘big data’ in their risk analysis. This study adopted three theoretical perspectives to address the multi-dimensional aspects of the dynamic interactions within IFT-systems: the sociology of (illegal) markets, social exchange theory, and the perspective of trust and risk. This study demonstrated that IFT-systems are a remittance market where remitters and IFT-brokers interact to buy and sell cross-border remittance services, drawing on the sociology of (illegal) markets. Social exchange theory provides a lens to analyze the relationships of dependency on resources or use of power, not only between remitters and IFT-brokers, but also between remitters, IFT-brokers, and formal financial institutions. The perspective of trust and risk works as a framework to examine why and how IFT-users and IFT-brokers trust each other, and enter into IFT-transactions under social uncertainty. The methods and theoretical frameworks that this study employed may benefit future studies on IFT-systems.

This study may also have an impact on societal responses to IFT-systems through several new findings on IFT-systems as well as policy recommendations. When it comes to how remittances between IFT-users and IFT-brokers are handled, this study showed

that they actively use online banking services offered by formal financial institutions. This somewhat contrasts with the general assumption that IFT-systems are isolated from formal financial institutions, except with regard to the procedure for the settlement of outstanding debts between IFT-brokers. This study identified 'solo IFT-brokers', whose existence contradicts the conventional IFT-systems where separate IFT-brokers in sending and receiving countries work together to transfer funds. Through online banking services, solo IFT-brokers can provide IFT-services in both sending and receiving countries without counterpart IFT-brokers. This study found that online banking services also benefit IFT-users. By using these services, remitters can easily send funds to IFT-brokers in remote places, leaving trails that work as a safeguard to protect them from IFT-brokers who fail to meet their obligations. Online banking systems therefore play an important role in reducing the vulnerability of both IFT-users and IFT-brokers facing social uncertainty. This study also identified some variant IFT-transactions, which differ from the traditional *hawala*-style IFT-transactions. They transfer funds across borders through the wire-transfers of formal financial institutions and the physical transfer of cash. These variant IFT-transactions may have been carried out in other countries as well. They may have been under the radar of governments. This study developed several policy recommendations based on the situational crime prevention and behaviorally-informed approaches in order to address the findings of this study. While the global IFT-risk indicator may enhance societal capacity to monitor IFT-risks across countries, these policy recommendations may provide the global AML/CFT community with more options in the fight against IFT-systems.