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Hawala: How Extralegal Compliance Helps Bank the Unbanked

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Executive Summary

Informal value transfer systems (IVTS') predate not only traditional banking systems, but the entire Western European civilization as well. Used as a reliable method to transfer value from one geographic region to another through a close-knit network of trusted individuals, IVTS' serve as an invaluable facilitator for the movement of billions of dollars across international borders without ever leaving a paper trail. The term “hawala”, which is Arabic for “transfer” or “trust”, is an IVTS that serves as a parallel banking system for those wishing to send value (often in the form of currency) overseas. Hawala has historically thrived as a connection to the global economy in parts of the world where sociopolitical unrest may have disrupted day-to-day financial activities and its resilience, among other factors, has propelled it to the preferred method of value movement by its customers (Viles, 2008).

With conservative estimates between $100 billion to $300 billion annually, the massive movement of value through hawala on a global scale continues to be unregulated and operates in secrecy through trusted networks that have been in place for centuries. Consumers of hawala range from individuals wanting to send remittances to relatives in a foreign country to terrorists attempting to fund their activities under the radar of government surveillance (Dougherty, 2006). While there are obvious and glaring money laundering risks associated with hawala, do the dangers of regulating such a robust IVTS outweigh the benefits of complying with U.S. laws and regulations?

Introduction: What is Hawala?

Although the exact origins of informal value transfer systems (IVTS') are debated, IVTS' have facilitated domestic and international funds transfers in various networks across the globe for thousands of years. They were first evidenced in the Asia around 5800 B.C. as a method to keep track of financial transactions between villages (FinCEN Advisory, 2003). The term "hawala", which is Arabic for “transfer” or “trust”, has applications as an IVTS in geographic regions throughout the world. Hawala was first used during the Teng Dynasty in China. The tea trade market required merchants to move large amounts of currency and tea from southern China to the Imperial Capital. To lessen the risk of theft, government officials in the capital issued certificates to the merchants that could be redeemed for currency at their southern destinations. This practice was later adopted by traders and merchants along the Silk Road as they needed to move large amounts of money between the Indian subcontinent and the Middle East/Europe (Nakhasi, 2007). Hawala allowed the traders and merchants to travel along the Silk Road without large amounts of currency and with the ability to pick up their currency at their destination. Over time it has been known as:

- Hundi (India/Pakistan): meaning "collect"
- Fei ch'ien (China): meaning "flying money"
- Phoe kuan (Thailand): meaning "message houses"; and
- Undiyal (Sri Lanka): meaning "piggy bank"

Hawala operates under a wide network of hawaladars that have built long-standing relationships based on trust and reputation (FinCEN Advisory, 2003). Hawaladars facilitate international money transfers, currency conversions, short-term lending, and various other types of financial services for their customers. To evade detection by regulators and authorities, the financial services provided by the hawaladar are typically run in parallel to the hawaladar's official business. Examples of official businesses (the business that the store owner is licensed to operate) could be anything from a small grocery store, pawn shop, nail salon, to an import/export business or travel agency. Four people are required for a hawala transaction: two customers (both the sender and recipient of funds) and two hawaladars facilitating the transaction. A typical hawala transaction is shown below in Figure 1:

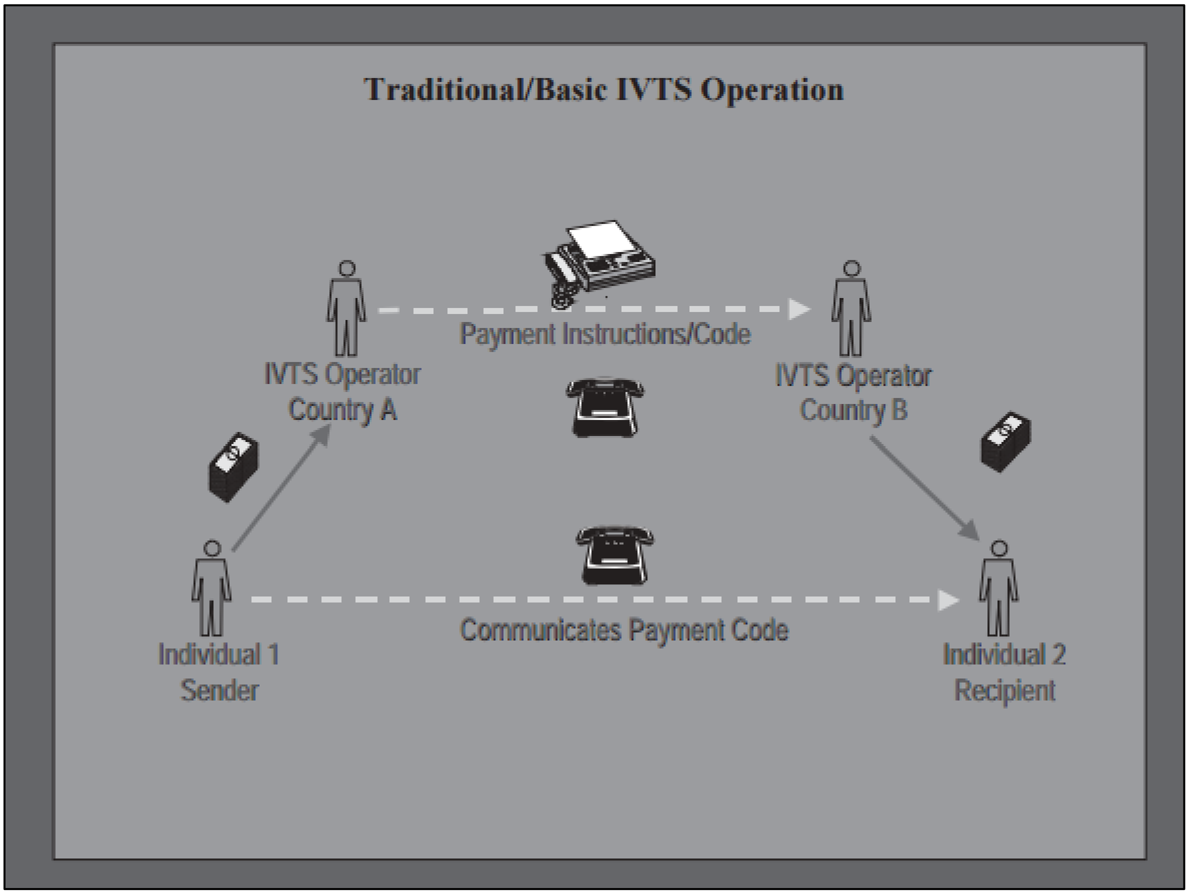

Figure 1: A Hawala Transaction (FinCEN Advisory, 2003)

1. The sender provides their hawaladar with currency in Country A (United States)
2. The sender is given an identification code by their hawaladar for the transaction
3. The hawaladar provides the identification code and transaction amount to another hawaladar in their trusted network nearest to the recipient's geographic area (Country B) to facilitate the transaction
4. The sender provides the recipient with the identification code
5. The recipient provides the identification code to the hawaladar in Country B

6. The hawaladar in Country/Region B provides the recipient with currency

Currency is not transferred between the two hawaladars in these hawala transactions. The transference of identification codes through electronic communication methods such as telephone, email, and fax allows the sender in the United States to "send" money internationally. The "money" is sent quickly, at low cost, and with confidence that the intended recipient will receive the money. In the example provided above, the hawaladar in Country/Region B is now indebted to the hawaladar in Country A (United States). There are two ways that hawaladars can settle the transactions over time. The methods explained below do not involve financial institutions. The hawaladars can agree to settle their accounts by:

- Under/over-invoicing the partner hawaladar
    - If Hawaladar B owes Hawaladar A $5,000.00, Hawaladar A may charge Hawaladar B $10,000.00 for product that is worth $5,000.00 to recoup the $5,000.00 owed.
        - Hawaladar A recoups the $5,000.00 owed by Hawaladar B by over-invoicing.
- Trade-based money laundering
    - If Hawaladar B owes Hawaladar A, Hawaladar B may sell easily resalable goods to Hawaladar A at a reduced cost (or no cost) and allow them to keep the cash profit. Examples of these goods would be electronics and jewelry.
- Currency couriers
    - Hawaladars can mule currency internationally via couriers.
        - They can hire individuals to physically transport currency across international borders to settle hawala accounts between hawaladars.

The second method involves settling transactions using both hawaladars' merchant bank accounts that are typically tied to their official business (small grocery store, pawn shop, travel/ticket agency, nail salon, or import/export business). The second method, described below in Figure 2, is more common than the first method according to law enforcement case information in the United States.

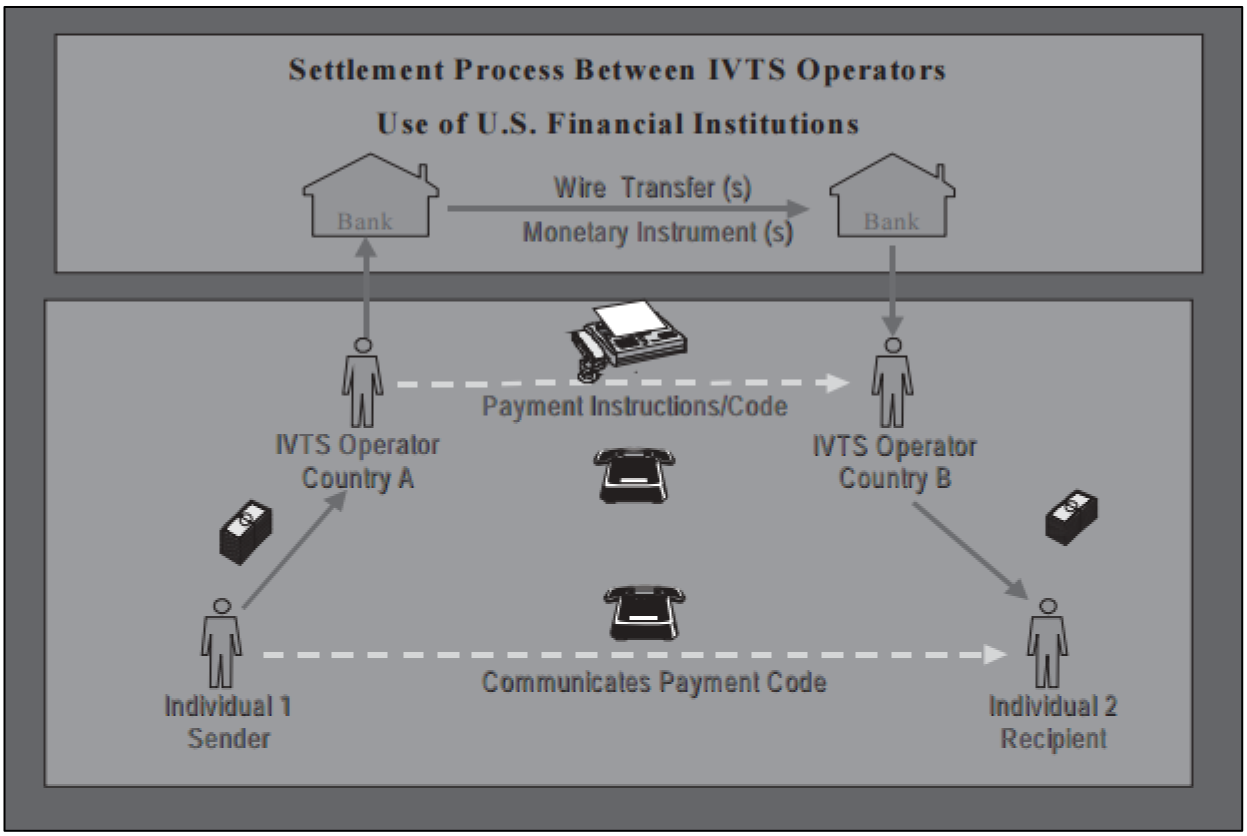

Figure 2: Typical Hawala Settlement Method (FinCEN Advisory, 2003)

The hawaladars can easily settle hawala transactions by completing transfers between the two accounts housed at financial institutions in the United States and abroad. Funds from the hawaladars' official activities are layered or comingled with the funds derived from hawala transactions and deposited into the financial institution. Doing so gives the appearance that the source of funds of the deposits are solely from the hawaladar's official business. At this point in the settlement method, the hawaladars can freely transfer funds across their trusted networks to settle various hawala transactions that have occurred over time (FinCEN Advisory, 2003).

Hawala Growth:

Hawala has its roots in ancient cross-border commerce. But as the world's population centers have expanded and shifted, it has grown to the multi-billion-dollar industry that spans the entire globe. Although there are several reasons why hawala has been successful for so long, there is one major reason for its continued success and prominence. Hawala has not only operated successfully alongside the banking sector, but it also has been a stable vehicle of value (money) transfer when and where traditional banking has failed its clients. It has been able to continually adapt and persevere in times of socioeconomic and political instability. As the U.S. Treasury stated in a study mandated by the PATRIOT Act in 2002, "…in countries lacking a stable financial sector or containing substantial areas not served by formal financial institutions, IVTS [including hawala] may be the only methods for conducting financial transactions (Burhouse et al., 2016)." In another part of the same study, Viles (2008) observed that:

> "the lack of any banking infrastructure compelled foreign governments and international organizations to use hawala to distribute foreign aid. Everyone's economic survival depended on hawala, and so all individuals and undertakings operating in Afghanistan used them. In fact, foreign government and international aid projects, as well as non-governmental organizations (NGO's), used them to carry out their work" (p. 28).

Today, individuals and organizations continue to use hawala to conduct a variety of financial transactions. Hawala understandably thrives in geographies where it may be the only available option. However, it also succeeds in geographies where regulated banking services operate too.

Hawala doesn't need to compete with financial institutions in geographies where they both operate simultaneously. A hawaladar may choose to run their services in parallel to financial institutions (Viles, 2008). Figure 3 below, created by the International Monetary Fund (IMF), outlines several remittance channels that are available to consumers to send money back to their home country.

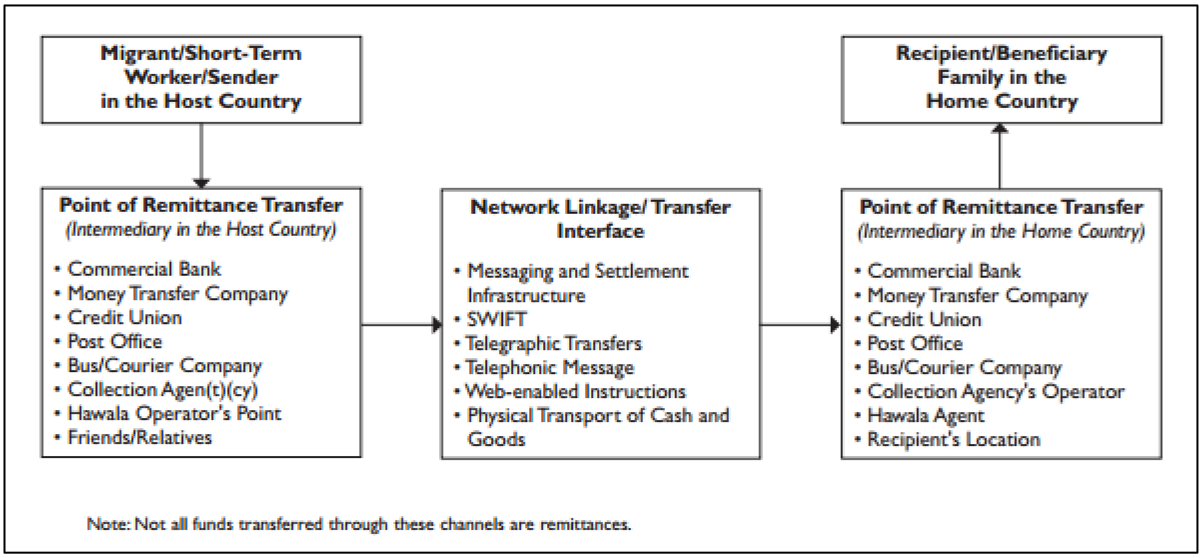

Figure 3: Available Remittance Channels (International Transactions In Remittances Guide for Compilers and Users, 2009)

All of the above remittance channels (except for friends/relatives) are bound by various sets of rules and regulations if these conditions are met: 1) The channel is located and/or operates in the United States and 2) the channel transmits, negotiates, or otherwise provides financial services. Specifically, hawala is considered by the Financial Crimes Enforcement Network (FinCEN) and other regulatory bodies to be a money services business (MSB) and must follow the same rules that apply to other MSB's.

Brief Overview of KYC/CIP Regulations in the United States

The United States, via the PATRIOT Act, requires financial institutions and businesses that provide financial services to "comply with Bank Secrecy Act (BSA) registration, recordkeeping, reporting, and anti-money laundering program requirements". FinCEN defines a MSB as "any person doing business, whether or not on a regular basis or as an organized business concern, in one or more of the following capacities:"

- currency dealer or exchanger;
- check casher;
- issuer or seller of traveler's checks, money orders, or stored value;
- money transmitter; and
- U.S. Postal Service.

A MSB cannot already be defined as a bank or a person registered with the Securities and Exchange Commission (SEC) or the Commodity Futures Trading Commission (CFTC). There is an activity threshold for some of the definitions above, in addition to the aforementioned criteria. For example, a common activity threshold is transacting more than $1,000.00 per person per day. A business would not be considered a MSB if they do not meet that threshold when cashing checks or issuing money orders. However, there is no activity threshold for the definition of money transmitter, which hawala falls since it transfers funds (i.e. value) from one location to another. MSB's operating in the United States are bound by a specific set of rules and regulations outlined in the Bank Secrecy Act (BSA). The act was developed in 1970 and has been amended numerous times as financial transactions have evolved. A MSB must:

- register with the federal government (FinCEN);
- develop an effective anti-money laundering (AML) program;

- report various cash, monetary instrument, and funds transfer transactions that exceed pre-defined thresholds;
- report suspicious activity that exceed pre-defined thresholds (SAR's); and
- use the BSA E-filing System (as opposed to paper forms) to file all BSA forms (Money Services Business (MSB) Information Center, 2017).

Many of the same rules and regulations that bind MSB's also apply to financial institutions. However, they are also required to abide by additional legislation because financial institutions typically provide a larger variety of financial products and services than MSB's. These additional financial services often span several lines of business (deposit accounts, credit cards, mortgages, and auto loans). These traditional (i.e. regulated) banking products are all accompanied by their own unique sets of guidelines and principles which financial institutions are required to follow. If they are found in violation, banks are at risk of fines, sanctions, and litigation. For example, the following pieces of information are required to open a personal bank account in the United States, per the rules of the Customer Identification Program (CIP) housed within the PATRIOT Act:

- Name;
- Date of birth;
- Address (physical street address, with exceptions for military personnel); and
- Identification number.
    - For U.S. citizens: social security number (SSN)/tax identification number (TIN), or evidence of application for either
    - For non-U.S. citizens: one or more of the following:
        - TIN;

- Non-U.S. passport number;
- Alien identification card number; and
- Various other unexpired government-issued photo identification confirming residence and/or nationality that has an identification number and country of issuance, at the bank's discretion.

However, financial institutions may ask for more information or perform additional verifications to satisfy the institution's own Know Your Customer (KYC) program. These additional verifications are based on a risk assessment of the potential new customer based on various factors, which can differ from bank to bank. These risk-based procedures are performed so that the financial institution can reasonably verify the customer's identity through documentary and non-documentary verification methods. As required by the PATRIOT Act, financial institutions must provide a notice to customers that they need to request specific information to verify their identities. Sample language that is provided in the regulation and at a banking website online are shown below, as outlined in The Bank Secrecy Act and Anti-Money Laundering Examination Manual (2014):

> IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT — To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

A personal bank account can be opened after the KYC and CIP requirements are met. However, CIP requirements are the first of many hurdles limiting access to traditional banking methods in the United States. A quick look at the various monthly fees associated with maintaining a "basic" checking account at the top 10 largest financial institutions is shown in Figure 4:

Account	Monthly Fee	Minimum Balance to Waive Fee	Direct Deposit Amount to Waive Fee
Bank of America - Core Checking	$12	$1,500	$250 (single)
Wells Fargo - Value Checking	$10	$1,500	$500 (total)
Chase - Total Checking	$12 ($10 in CA, OR and WA)	$1,500	$500 (total)
Citibank - Basic Checking	$25	$1,500	N/A
U.S. Bank - Easy Checking	$8.95	$1,500	$1,000 (total)
PNC Bank - Standard Checking	$7	$500	$500 (total)
Capital One - 360 Checking® Account	$0	$0	$0
TD Bank - TD Convenience Checking	$15	$100	N/A
BB&T - BB&T Back to Basics Checking	$0	$0	$0
SunTrust - Everyday Checking	$7	$500	$100 (single)
AVERAGE	$9.99	$860	$285

Figure 4: Monthly Maintenance Fees (Kim, 2017)

In Theresa Kim's article, " Checking Account Fee Comparison at Top 10 U.S. Banks", a basic checking account is defined as a non-interest-bearing checking account with the lowest monthly fee offered that can be avoided by either maintaining a minimum balance or setting up a direct deposit. Most financial institutions are for-profit entities and need to make money and customers are charged a hefty premium for accessing their own money. Here are two scenarios which highlight the impact of fees for a checking account at Citibank (the highest monthly fee).

- Customer A is only paid in cash daily after each shift at a restaurant and does not receive any direct deposits. Customer A does not maintain a monthly balance of $500.00 as they struggle to pay bills each month. On average, they maintain a $100.00 average monthly balance, which is calculated by averaging the daily closing account balance throughout the month. Customer A is charged a 25% fee in this scenario to keep their money in a checking account at a bank for one month.
- Customer B recently moved to the United States and is unemployed. They do small jobs around the local community to make ends meet while they look for a job. Customer B can only save a few dollars from each small job and their average monthly balance is $50.00. Customer B is charged a 50% fee in this scenario to keep their money in a checking account at a bank for one month.

The customers that need help saving the most are actually being penalized heavily by financial institutions across the country. Why would an individual use a bank account if half of their money is taken from them at the end of the month?

Who Uses Hawala and Why?

Hurdles such as CIP/KYC requirements, fees, and even cultural barriers associated with maintaining a checking account in the United States can be cumbersome. Together, they ultimately limit access to the financial system (Redín, Calderón, & Ferrero, 2014, p. 329). According to the Federal Deposit Insurance Corporation (FDIC), an individual is considered "unbanked" if they do not have a checking or savings account. An individual is considered "underbanked" if they supplement their bank account with alternative financial services (AFS) such as check cashing services, money orders, payday loans, and international remittances (i.e. hawala). Hawala serves an important purpose for the unbanked and the underbanked population in the United States, as well as for the recipients of remittances sent from the United States to other countries. Approximately nine million households were unbanked and 24.5 million households were underbanked in 2015 (Burhouse et al., 2016). What formal (i.e. regulated) options are available to the unbanked and underbanked populations to transfer money from the United States to international locations without using a traditional bank account?

The options that are currently available to individuals that do not already have a bank account may have higher transaction fees than methods that require a bank account. The two major players are MoneyGram and Western Union, both of which have 350,000 (Western Union) and 500,000 (MoneyGram) locations worldwide, respectively, in more than 200 countries. Other operators include Al-Mustaqbal Express, Amal Express, Dahabshil, Iftin Express (Somalia), Kaah Express (Somalia), Ria, Sigue Money Transfers, and Tawakal Express. Each of these money transmitters have various transfer fees, transfer speeds, disbursing network coverage, and exchange rate margins. Together, these factors can drastically affect the total amount that the recipient receives (The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org). The total cost of sending remittances internationally is captured in a report issued by The World Bank below in Figure 5:

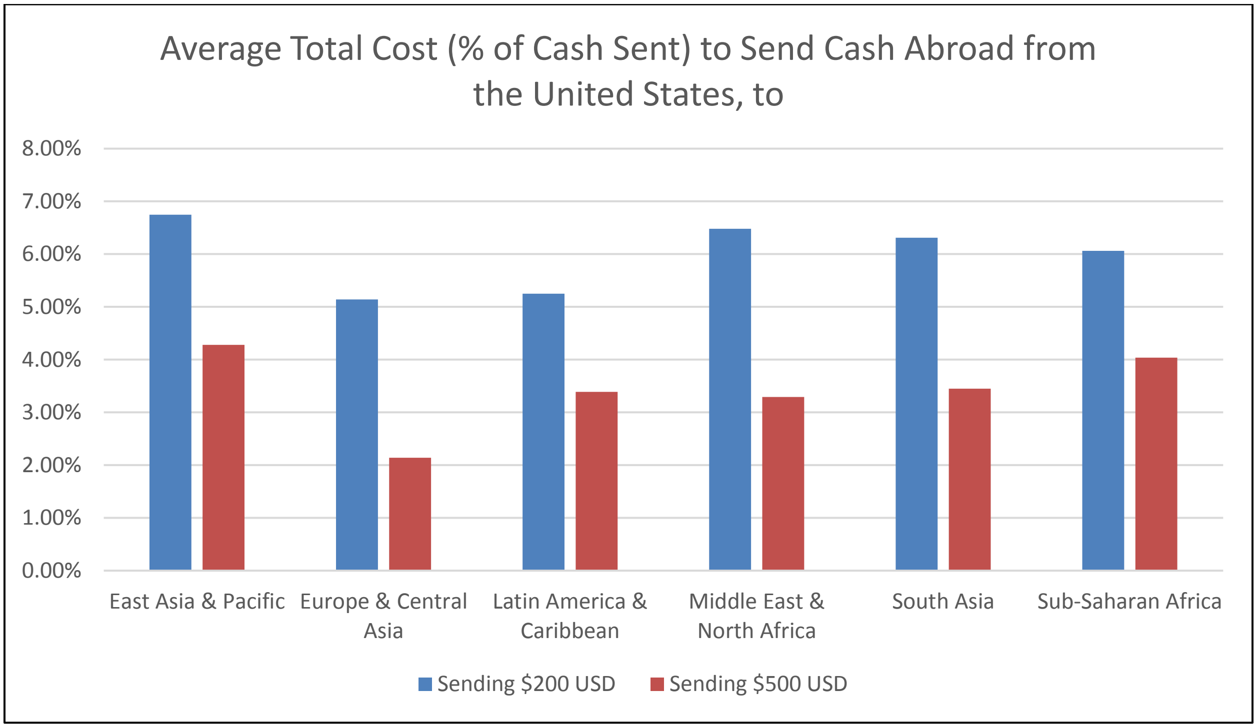

Figure 5: Data from "The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org (Average Q2 2016 Data)

Figure 5 shows the cost to send $200.00 in terms of percentage of the principal amount to various destinations. The table takes into account firms that would only accept cash as the payment instrument and only disburse cash at the pickup or delivery location. The average total cost for sending $200.00 from the United States ranged from 5.14% (Europe & Central Asia) to 6.75% (East Asia & Pacific) of the transaction. The average total cost for sending $500.00 ranged from 2.14% (Europe & Central Asia) to 4.04% (Sub-Saharan Africa) of the transaction. The decreasing fee structure for higher-dollar transactions is also present in hawala transactions.

As shown in Figure 5, the average speed of the transfers varied greatly from "less than one hour" to "3-5 days". All regions had money transfer options available that could be completed within an hour, but sometimes transactions would take much longer. While all regions had options to have the recipient receive local currency or USD, money transfers in Europe & Central Asia region were only paid out in USD. In all cases where the pay-out was in USD, an additional fee could be charged in those instances if the recipient requested the local currency instead. Of note, the United States dollar is an accepted currency in many countries around the world.

Destination Region:	Speed:	Receiving Network Coverage:	Pay-Out in USD Only:	Home Delivery Available:
East Asia & Pacific	< one hour - next day	Low - High	No	Yes
Europe & Central Asia	< one hour - same day	Medium - High	Yes	No
Latin America & Caribbean	< one hour - 3-5 days	Low - High	No	Yes
Middle East & North Africa	< one hour - next day	Low - High	No	Yes
South Asia	< one hour - two days	Medium - High	No	No
Sub-Saharan Africa	< one hour - next day	Low - High	No	No

Figure 6: Data from "The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org (Average Q2 2016 Data)

This is where hawala enters the picture. An individual can enter into a hawala transaction without a bank account, without official identification, and without substantial fees. The lack of bureaucratic oversight allows an individual to seamlessly send money from one location to another quickly, at little to no cost, and with absolute certainty that the recipient will receive the funds. As Redín, Calderón, and Ferrero wrote in "Exploring the Ethical Dimension of Hawala",

> "The main features that make hawala system attractive and efficient for its users are basically; the speed with which the transactions are completed, the low cost of the services, the cultural convenience, and the versatility that enables hawala dealers to operate under extreme economic and political circumstances" (p. 329).

Hawala transactions can take as little as a few hours and most transactions are completed within twenty-four hours. Some hawala transactions can take up to forty-eight hours if the recipient lives in a rural area (Redín, Calderón, & Ferrero, 2014). This timeframe pales in comparison to traditional methods, which can take to upwards of one week when taking into account bank holidays, time zone differences, and the hours of operation of the money transmitter (Pohoata & Caunic, 2007, p.5).

As outlined in Figure 6, fees associated with sending cash overseas can vary widely based on geography. In addition, transfer speeds from the United States to the countries mentioned above varied from under an hour to more to five days. Additional fees can also be leveraged by the money transmitter when converting the transaction to the local currency on the recipient's end (The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org).

Fees associated with hawala transactions are typically much less than fees for formal (i.e. regulated) methods that use money transmitters or financial institutions. On average, hawaladars charge between 2.0-5.0% of the total amount of the transaction. There have also been instances of hawaladars processing transactions without any fees (Redín, Calderón, Ferrero, 2014, p. 329). The fees are largely based on the destination and the amount of money that is being transferred.

However, there is not much data regarding fees with hawala transactions due to the relative anonymity of it, lack of record-keeping, and stigma associated with operating an unlicensed money transmitting service in the United States.

David Block from the University of Pennsylvania interviewed IVTS brokers in the Philadelphia area in 2016. He found that the prices ranged from a $20.00 fee on transfers up to $1,000.00 (with a declining percentage fee on transfers in excess of $1,000.00) to a 2.0% fee on transfers, regardless of amount. In addition, fees were higher to recipient locations where formal options were not available (specifically locations in Senegal, Chad, Nigeria, and Mali). A fee of $20.00 specifically for those locations is in part due to the hawaladar being able to complete those transactions in isolated or rural areas that lack any other alternative. These hawaladars practically have a monopoly in some locales. Prices tended to be lower and more competitive in major urban centers, while the prices were higher in areas that were less populated (Block, 2016, p. 15-16). It is clear that using hawala is typically less expensive, faster, and more reliable than formal money transmitting services in many circumstances.

Why Regulation Will Not Work:

For an industry which is estimated to move between $100 billion to $300 billion annually, the call for regulation by many has been met with both approval and opposition. Hawala is considered to be a MSB in the United States. Nevertheless, many hawaladars operate their money transmitting services under the secrecy of their official business and remain unregistered. Regulating hawala will not work for the following reasons:

- Hawala is already self-regulated via trust built through networks;
- Hawala fills a void for those who cannot/will not participate in traditional banking; and

- Regulation would push hawala further underground.

As Redin noted in "Exploring the Ethical Dimensions of Hawala":

> "Hawala serves legitimate needs that cannot be met in other ways. That is, hawaladars offer financial services to people that otherwise would be excluded from the system or would have to bear excessive costs to access it. Further, hawala has proven to be the only practical alternative in the event of institutional collapse in many countries" (p. 331).

While hawala is based on the trust formed between hawaladars and their customers (the term even means "trust" in Arabic), formal banking in the United States is based on the opposite (Redín, Calderón, & Ferrero, 2014, p. 332).

Trust is enforced through regulation and litigation in the United States. Financial institutions are tasked with following regulations set forth by the government to establish trust between them. Financial institutions are expected to keep up with the ever-changing rules and regulations, which average about 200 revisions daily. Periodically, financial institutions are audited by regulators to ensure they are in compliance. Warnings, enforcement actions, fines, and litigation are leveraged when non-compliance is found. As described in Figure 7, over $321 billion in fines have been issued to financial institutions around the world since 2008 due to various regulatory failings.

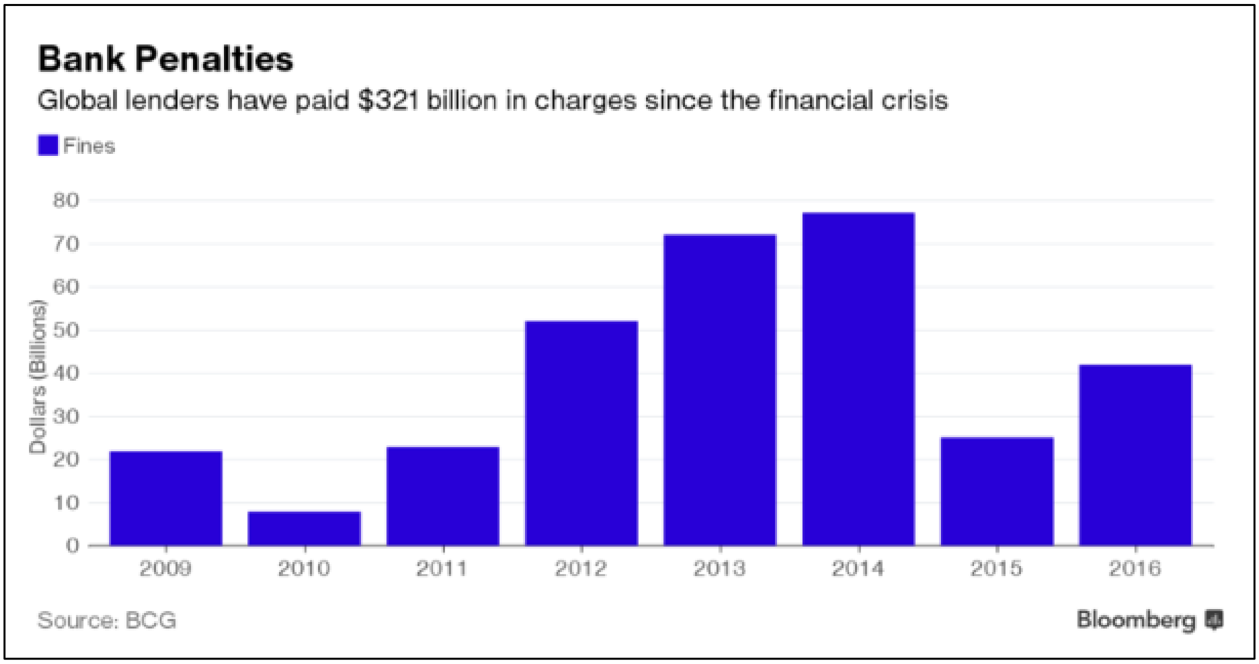

Figure 7: Bank Penalties Paid by Global Lenders (Finch, 2017)

As Grasshoff noted, "as conduct-based regulations evolve, fines and penalties, along with related legal and litigation expenses, will remain a cost of doing business". The increase in bank penalties globally represents a continued loss of trust between governments and its financial institutions (Finch, 2017).

Hawala is based on trust and is compliant with the teachings of sharia and the principles of Islamic law. Trust is built into each and every hawala transaction. The success of a hawala transaction is completely dependent on the reputation of a network of people working together to transfer value (currency) across the globe. Each person involved in a hawala transaction faces social and commercial ostracism if they fail to honor their word. The religious and spiritual ethics of Islam reinforce trust across the networks, as "…it upholds contractual obligations and the disclosure of information as a sacred duty" (Redín, Calderón, & Ferrero, 2014, p. 332). In this regard, regulating hawala in accordance with the regulations of the United States would fail; hawaladars already comply with standards that are accepted as law. Enforcing trust through regulation and litigation would challenge the very basis of what hawala is. Trust is already guaranteed through religious affiliation and reputation within the network.

Conventional banking in the United States also does not cater to those who use hawala. This is evidenced by the increased anti-money laundering (AML) and KYC/CIP regulations enacted by the PATRIOT Act after September 11, 2001. IVTS' have been historically associated with terrorist financing, especially post-9/11. This sentiment has been touted as one of the main reasons to bring regulation to the forefront of hawala and other IVTS' operating within the United States. A report issued by the 9/11 Commission in 2004 suggested that there wasn't any evidence linking hawala to funding the operation. The entire operation was funded through various financial products used within the formal banking system. Nowadays, terrorist attacks often total less than $10,000.00 and the financial instruments used have become less sophisticated. Emilie Oftedal, in conjunction with the Norwegian Defence Research Establishment (FFI), published a report in 2015 titled, "The Financing of Jihadist Terrorist Cells". Figure 8 describes the range in cost for the terrorist plots conducted between 1995 and 2013 by the 40 terrorist cells that were studied in the report:

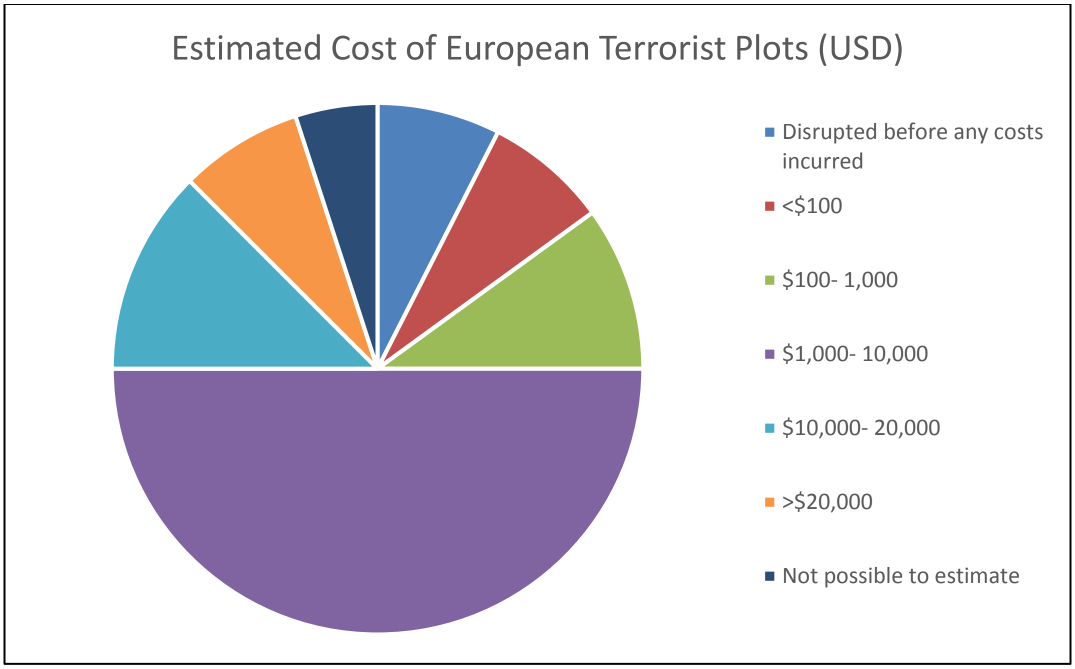

Figure 8: Estimated Cost of European Terrorist Plots (Oftedal, 2015)

The chart highlights that more than two-thirds of the terrorist plots were financed with $10,000 or less. Although hawala may be vulnerable to criminal use, it is no more vulnerable than using formal (regulated) banking methods.

Additional regulation burdening financial institutions is not the answer. Even without any direct evidence, hawala continues to be associated with terrorist financing because of its informal structure (Viles 2008, p. 26). As such, some countries have attempted to regulate hawala by requiring registration and licensing or by prohibiting it altogether.

Both Afghanistan and the United Arab Emirates (UAE) have attempted to regulate hawala by requiring hawaladars to register with the government and pay licensing fees. There have been low registration rates in both countries as the governments do not have the capacity to enforce registration. Additionally, there aren't any enforceable penalties or incentives to ensure compliance with registering. Other countries, such as India and Pakistan, have outright prohibited hawala. Even though hawala is prohibited in those two countries, they still form two important points in the "hawala triangle" along with the United Arab Emirates. These three countries rely heavily on hawala as approximately 80% of their labor workforces consist of temporary migrant workers. Oftentimes, hawala is the only way to send money back home (Trautsolt & Johnsøn, 2012, p. 407-415).

Conclusion:

Hawala has continually proven itself to be more reliable, faster, and cheaper than traditional banking. Instead of attempting to regulate a system that is a drastic improvement over the current condition, governments, financial institutions, and MSB's need to learn from hawala. One solution would comprise of financial institutions offering inclusive financial services that serve the unbanked and underbanked populations without bankrupting them in the process. This solution includes the following actions:

- Offer checking accounts with no fees or minimum deposit amounts;
- Eliminate fees for account activity that may be indicative of financial distress, such as non-sufficient funds fees, inactivity fees, minimum balance fees, and overdraft fees;
- Use a sliding scale fee structure based on ability to pay for services that typically require a fee (i.e. incoming/outgoing wires, cashier's checks, and debit card replacement); and
- Improve the use of non-documentary verification methods to satisfy current KYC requirements in the United States.

These actions would likely result in a decrease in revenue due to the elimination of several fees. However, if a financial institution can garner the support and trust of the approximately 9.0 million unbanked households that do not have bank accounts, the effort would be mutually beneficial a thousand-fold.

Another solution based on the observations of Trautsolt & Johnsøn (2012) would involve regulators and hawaladars working together to arrive at a middle-ground of quasi-regulation of hawala. Regulators need to fully understand the social, economic, and cultural importance of hawala. Focusing solely on how it can be used to launder criminal proceeds and finance terrorism is not the answer; the regulation of formal financial institutions has evolved even though they are consistently used by bad actors to facilitate crime around the world. Both formal financial institutions and hawaladars already rely on non-documentary methods to verify their customers. Both formal financial institutions and hawaladars suffer negative consequences when the principle of trust is lost between actors, but in different ways:

- Bank and customer (formal) or government and bank (formal) via litigation
- hawaladar and customer (informal) or hawaladar and hawaladar (informal) via social and commercial ostracism

Hawala serves a purpose for the 9.0 million households in the United States that do not have a bank account and serves millions more across the world. Hawala's informal and self-regulating structure has allowed it to stand the test of time. The risks of forcing hawaladars and their customers to comply with current U.S. laws and regulations far outweigh the benefits of allowing hawala and other IVTS' to continue to self-regulate by compliance with extralegal standards.

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