

# Stability and Security

## Danish Somali Remittance Corridor Case Study

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### I. Background

The vast majority of Somalis who have remained in their country continue to rely on remittance money sent from abroad. Although smaller waves of immigration have occurred for many years,<sup>1</sup> prolonged political and economic turmoil coupled with periods of violence and humanitarian crisis have caused the number of Somali immigrants to spike in the last twenty years. This population outflow has resulted in an extensive diaspora network across the globe, with communities established across the Greater Horn of Africa, the Gulf States, North America, and Europe. Estimates on the size of the Somali diaspora range from 1–1.5 million people globally,<sup>2</sup> or approximately 14 percent of Somalia's total population.

These diaspora communities have traditionally remained actively engaged on Somali political and economic developments from their adopted countries. One of the diaspora's primary ties to the homeland comes in the form of remittances—money that is sent on a regular basis to family and friends in Somalia. These funds have often been called a lifeline for the Somali people, covering the costs of needs such as food, education, and health care.<sup>3</sup> Although the exact scale of remittance flows is difficult to pinpoint, estimates have ranged from \$750 million to \$1.6 billion annually and these funds account for nearly 60 percent of the Somali recipients' average annual incomes.<sup>4</sup>

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Remittance transactions are processed by money service businesses (MSBs), also known as *hawalas*, which provide access to financial services across Somalia in places where formal banking systems do not exist. International financial institutions provide “holding accounts” for MSBs to deposit funds from senders before they are wired to the payout locations where they will reach recipients. Due to the rapid turnover in MSB bank accounts and the varying customer due diligence (CDD) standards in the jurisdictions that receive the transferred funds, MSBs have come under increased global scrutiny in recent years and been identified as an area of vulnerability for criminal use, including terrorist financing. In response to tightened anti-money laundering and countering the financing of terrorism (AML/CFT) regulations and the imposition of high penalties for noncompliance, there has been a rising trend among financial institutions to exit relationships with clients deemed “high risk”—including many of the Somali MSBs.

Somalis are not the only remitting community confronted with this problem, but de-risking has proven to be particularly pervasive for the Somali community in terms of both targeting and impact. In 2001 the U.S. government shut down the operations of al-Barakaat—which, before the attacks of September 11, was the largest MSB serving Somalis—because of suspicions that it had been used as a channel to funnel money to al-Qaida. Despite the 9/11 Commission’s finding that *hawalas* including al-Barakaat were not used to fund the 9/11 operation itself,<sup>5</sup> some unrelated incidents in which individuals of Somali origin were found to have funneled money for terrorist purposes through MSBs received significant media attention.<sup>6</sup> Financial institutions are thus increasingly wary of engaging with MSBs, and in recent years a number of banks, including Sunrise Community Bank, Barclays Bank, and Westpac Bank, have begun closing remittance accounts.

Beyond providing vital sustenance funding to relatives in Somalia, many diaspora members see remittances as part of their social obligation and a way to contribute toward financial stability and the rebuilding of their communities despite the geographical distance.<sup>7</sup> While other diaspora populations must also scramble to identify new financial institutions following account closures, humanitarian concerns and the absence of a financial infrastructure compound the urgency of the problem for the many people in Somalia who are largely reliant on remittance funds. Due in part to the negative media attention resulting from the terrorism financing cases involving *hawalas* that serve the Somali community, many in the Somali diaspora perceive the discrim-

ination by financial institutions against them to be greater than that faced by other diaspora communities.

With these vital funds at risk, it has become increasingly important to understand specific remittance corridors and sending practices in order to design appropriate policy that encourages financial inclusion and economic integration, and provides incentives for banks to maintain these crucial relationships.<sup>8</sup> Although the United Kingdom remains the primary European destination for Somali immigration, Denmark has seen a spike in the number of Somali refugees seeking asylum in recent years—rising from just 66 applications lodged in 2009 to 769 in 2013.<sup>9</sup> Denmark’s current Somali diaspora population, which includes both well-established members and recent arrivals, is estimated at 19,508.<sup>10</sup> A large percentage of the diaspora send remittances to Somalia, with Oxfam America estimating that in 2007, \$45 million was sent annually from nearly 13,000 senders in Denmark.<sup>11</sup>

While there is much literature and news coverage available on Somali remittance linkages to other diaspora communities across North America and Western Europe, the body of literature available on challenges and opportunities for the Danish-Somali remittance corridor is comparatively small.<sup>12</sup> With a large portion of the Somali diaspora in Denmark sending remittances and increasing global scrutiny on AML/CFT practices, the regulatory climate for MSBs in Denmark has become an important component of Somali diaspora relations. In July 2014, the Danish Financial Supervisory Authority (FSA), known as the *Finanstilsynet*,<sup>13</sup> released a statement that Dahab Shiil Money Transfer Service Ltd.’s operations within Denmark have not been in full compliance with Danish AML legislation following an inspection and investigation that began in July 2013. The FSA has since ordered the company to establish procedures for the reporting of suspicious customer activity in line with Danish AML legislation and to “cease to have agents” outside its main office in Copenhagen.<sup>14</sup> With inquiries into Dahab Shiil’s operational compliance ongoing, it is likely that investigations will also spread to other Somali MSBs operating in Denmark. In the absence of a clear delineation and mutual understanding of roles and responsibilities between regulators and MSB operators, the experiences of account closures in the United States, the United Kingdom, and Australia run the risk of being repeated in Denmark.

This policy brief examines Somali remittance practices in Denmark and the operations of Somali MSBs. Additionally, it offers insights into Somali perceptions of diaspora relations in Denmark in order to better

understand the underlying socio-political considerations related to the existing regulatory climate for MSBs. Research for this policy brief was conducted through a desk review of the English language literature on the topic as well as selected translations in Danish and Somali, and field interviews with government actors, private sector representatives, and community leaders in three Danish cities: Aalborg, Aarhus, and Copenhagen. The brief

1. Provides contextual background of the remittance climate and Somali diaspora relations in Denmark,
2. Discusses general trends in MSB operations in Denmark, as well as perceptions of those operations, and
3. Concludes with recommendations for key actors related to regulation.

## II. MSB Operations in Denmark

Danish regulations for MSBs are aimed at allowing the safe passage of remittances while also countering money laundering/terrorism financing threats. The FSA of Denmark is the entity responsible for “supervising compliance with financial legislation by financial undertakings (enterprises).” According to the Danish Financial Business Act, it has the authority to issue licenses<sup>15</sup> to such institutions within Denmark. Within the FSA there is a specific “governance, anti-money laundering and payment services” division<sup>16</sup> to handle the operations of MSBs operating under Danish jurisdiction.

The FSA provides a comprehensive public listing of the enterprises under its supervision. To be licensed by the FSA as an independent and stand-alone *hawala* within Denmark, MSBs are listed as “payment services area” institutions “with restricted authorization.”<sup>17</sup> The list currently includes four Somali MSBs: Amal Express Financial Service, Dahab Shiil Money Transfer Service ApS, Iftin Express, and the Somali Welfare Association. According to one interviewee, another company has submitted an application for a license and will receive one pending final approval from the FSA. Many of these companies were only registered in recent years, between June 2010 and July 2012.<sup>18</sup> The “restricted authorization” permits these businesses receive are in accordance with the Payment Services and Electronic Money Act, which lists money remittances as payment services in Annex 1, subsection 6.<sup>19</sup> Section 38, subsection 2 of the law pertains to MSBs, qualifying them to be

licensed as long as the “preceding 12 months’ average total amount of (their) payment transactions . . . (does not) exceed EUR 3 million per month.”<sup>20</sup> Section 38, subsection 2 of the Payment Services and Electronic Money Act also covers the operations of agents of MSBs, with the line: “any agent for which the undertaking assumes full liability.”<sup>21</sup>

In Denmark, Somali MSB agents operate in two ways. Somali communities in Danish cities are small<sup>22</sup> compared to the communities in London,<sup>23</sup> Minneapolis,<sup>24</sup> and Toronto.<sup>25</sup> Because of this, many of the registered MSBs in Denmark may only have one main office, which is often in Copenhagen. To serve customers in other areas where the Somali diaspora is present, such as Aarhus, Aalborg, Kolding, and Odense, they contract agents in each of these cities to serve as representatives and employees of their MSB. These agents gain access to the Danish MSB branch’s bank account so they can transfer the money from their location to the main office in Copenhagen. From there, the funds leave Denmark for their intended recipients in Somalia or other locations in the Greater Horn of Africa.

These agents also operate as employees of MSBs that are not independently licensed in Denmark. These MSBs do not have official branches in Denmark, but are instead affiliated with more recognizable and well-known MSBs—often not Somali-specific in affiliation—that serve as their parent companies, including Euronet Payment Services, MoneyGram, Western Union, and Xpress Money Services Limited. According to the Danish FSA’s website, there are 666 of these registered MSB “agents” in Denmark listed under the “payment services area.”<sup>26</sup> This number is inclusive of all MSBs rather than those that serve the Somali community alone. The companies with which they are affiliated are obligated to comply with the Danish AML Act as per their licensing, and are thus responsible for ensuring the AML/CFT compliance of their agents.<sup>27</sup>

### **III. Selected Perceptions from MSB Operators**

During field interviews, the research team spoke with a limited but diverse selection of community members and Somali MSB operators in Aalborg, Aarhus, and Copenhagen about their perceptions of the MSB industry in Denmark and their experience operating in the Danish regulatory environment. Individual remittance transactions often average between \$100 and \$300. Breakdowns of the final destinations for remittance funds varied by MSB, but one representative estimated that 80

percent of remittances sent through their MSB in Denmark were going to Somalia, with the remaining 20 percent going to Somali communities in East African countries, including Ethiopia, Kenya, and Uganda. All of those interviewed emphatically stressed the importance of compliance with Danish AML legislation in order to keep their licenses or to maintain their agent status under other businesses, though they described their view of the law as being “very strict.”<sup>28</sup>

Adequate compliance with this relatively new legislation involves increased operating costs and a substantial time commitment, requiring MSBs to keep extensive records, conduct regular audits, and provide ongoing AML/CFT training for staff. In highlighting the change in MSB prospects since the updates to the Danish AML law, one former MSB operator joked that in order to own an MSB branch and stay abreast of all of the regulatory requirements, one needs an advanced banking degree.<sup>29</sup> In addition to being licensed by Denmark, many MSBs also must be licensed by their business’ headquarters, which involves its own set of compliance and training requirements. While interviewees acknowledged the value of the principles they learned at these trainings, these dual requirements force MSBs to dedicate significant resources to training programs for their Denmark-based employees. Oftentimes, a company’s compliance officer will travel from headquarters to all of the jurisdictions in which the MSB operates to provide in-depth trainings on CDD and reporting guidelines and requirements, limiting the compliance officer’s desk time in the company’s home office.<sup>30</sup>

MSB representatives also indicated that the record-keeping requirements are a time-consuming process that is difficult to conduct with limited staff capacities. Some MSB operators struggled with the amount of information they are required to aggregate, retain, and then provide to regulators for each transaction by customers who “they know” and “who know them.” There remained a view among some that their primary responsibility in terms of compliance is to collect relevant identification information from customers and share this with regulatory authorities, rather than proactively monitor for suspicious activity or ask too many questions about the source of funds.<sup>31</sup>

Interviewees generally noted a shift in the viability of *hawalas* as a long-term source of revenue for owners. Representatives of several companies indicated that the cost of compliance is making it more expensive to process and send remittances, lowering their profits on each transaction and often resulting in their barely breaking even. The

MSB owners who were interviewed for this research noted that *hawala* organizations should not be conceived of as small for-profit businesses but, rather, as the embodiment of the obligation of Somali diaspora communities across the world to their homeland. Even though one representative emphasized that some *hawala* operators are looking to exit the Danish market, he noted that other individuals within the community would step up to fill that absence due to this sense of responsibility. This duty is also honored equally by the Danish sending community; according to one interviewee, even when senders in Denmark have no available money, they borrow or apply for a personal loan in order to send their monthly remittance payments to Somalia. The significance of this practice as a cornerstone of Somali social responsibility is important to consider when discussing the regulatory structures for MSBs. *Hawala* owners in particular may view increased AML/CFT scrutiny as suspicion directed at the Somali community, rather than a practice applied to all MSBs operating around the world.

Despite the current prevalence of remittances, many interviewees expressed concern that a form of remittance decay<sup>32</sup>—a decreasing volume of funds sent by Somalis in Denmark to Somalia—is on the horizon for the community as the Danish-born Somali generation reaches employment age.<sup>33</sup> Many second generation Somalis have never visited their homeland and no longer have nuclear family members living in that country. They feel less connected to their homeland and identify more with Danish society—a factor that could reduce their willingness to send remittances in the future. Additionally, interviewees suggested that the second generation has come to view remittances as a negative practice, creating a culture of dependency that is not beneficial to rebuilding Somalia. According to some interviewees, many of the younger generation have indicated a preference to supporting development and investment opportunities as opposed to the traditional person-to-person remittance structures. Examples include remittances for school fees, business development, and as rewards for educational achievement. The shift in the purpose of remittances also has had an impact on sending practices, with senders moving away from small, regular contributions to more infrequent and larger contributions. As the Danish community seeks to regulate the industry, transaction amounts and frequency become important variables, as these transactions are currently viewed as “irregular” and may be otherwise flagged as suspicious.<sup>34</sup>



In terms of sending trends and patterns, MSB operators explained that every three months they observe an influx of remittance traffic coinciding with the schedule of Danish welfare and child support payments. MSBs and community leaders also raised the common occurrence of *hagbad*-type scenarios, in which groups—often led by women—collect funds to serve as a pooled savings account in which available funds are rotated among participating individuals. Interviewees noted that welfare associations such as the Somali Welfare Association collect money from diaspora members and send one lump sum payment to Somalia to save on transaction costs.<sup>35</sup> These examples complement the trend of diaspora members in Denmark choosing to finance more expensive endeavors rather than smaller-scale remittance payments to individuals.

#### IV. Diaspora Relations: A Somali Perspective

Denmark is considered an attractive and welcoming place for immigrants, offering a generous and supportive social welfare system with high levels of public provision for health care, education, and unemployment benefits that are accessible to all citizens and residents. In 2014, Denmark spent 30 percent of its annual GDP on social expenditures, well above the Organisation for Economic Co-operation and Development (OECD) average of 21 percent.<sup>36</sup> Somali refugees in particular remain, however, one of the least integrated minority groups in Denmark. For example, in 2010 only 34 percent of men and 22 percent of Somali women were employed, due in large part to limited education and language difficulties.<sup>37</sup>

As an increasing number of Somalis settle in Denmark and a second generation is born and raised there, more attention has been paid to the relationship between the Danish government and the Somali diaspora. Denmark is a small country with a relatively homogeneous population and a strong national identity,<sup>38</sup> and the recent rise in Somali immigration has led to growing concern about its impact as well as the challenges of refugee integration. This concern has manifested itself in the tightening of asylum legislation, which has been perceived by some as a method of preserving “Danish culture.”<sup>39</sup> These shifting cultural perceptions may have an impact on the ongoing development of Somali diaspora relations in Denmark, and here the research team provides a brief snapshot of some of the key issues that surfaced during interviews with 15 diaspora members. While these cannot be



taken as representative of the entire Somali experience in Denmark, they provide some insight into the underlying socio-political elements of diaspora relations that offer a useful context in which to frame the AML/CFT policymaking and regulatory frameworks.

The Danish government has strict requirements for citizenship, which many Somalis interviewed see as a strategy to preserve the homogeneity of Danish society. In order to become a citizen, one must have a permanent residency permit, proof of residency for nine years, and cannot have received public assistance under the Active Social Policy Act or the Integration Act within the last year or for more than 30 months in the past five years. Applicants also cannot have any outstanding public debt or have been sentenced to prison terms of 18 months or for more than 60 days for a violation of Penal Code chapters 12 and 13, which are related to terrorism.<sup>40</sup> The requirements that were most frequently cited by the Somalis interviewed for this study, however, were related to the language and citizenship test requirements. The Danish government requires foreign nationals to pass a Danish language exam, the Danish Test 2 or its equivalent, as well as a citizenship test that emphasizes aspects of daily and active political life. Finally, applicants must also sign a declaration of allegiance and loyalty to Denmark and Danish society.<sup>41</sup> Previously, Denmark had required applicants to renounce their prior citizenship, but has recently relaxed those requirements for refugees—although renouncing is still encouraged for other non-refugee applications.<sup>42</sup>

Somali interviewees in Denmark found these requirements to be challenging for their community, particularly as those interviewed did not perceive inherent benefits in obtaining citizenship given that it was not a prerequisite for welfare assistance. The only benefit that was noted consistently was the ability to travel more freely and to potentially relocate to other countries within the EU, including the United Kingdom, which is viewed as a “more Somali friendly community.”<sup>43</sup> The disconnect between residency and citizenship has arguably contributed to the Somali diaspora’s continued identification as Somali over Danish. This identification, coupled with the community’s heavy engagement in political and economic affairs in Somalia, has also encouraged the development of a perceived divide between the Somali diaspora and the Danish citizenry. This divide has been further exacerbated by the rise of right-wing political groups in Denmark. Some indicated that many Somalis feel that they are not accepted by

society, and as a result have been largely excluded from participation in both the labor market and in Danish civil and political institutions.<sup>44</sup>

The Danish government has worked to engage with diaspora organizations on social and political issues, including providing support for diaspora-led relief, rehabilitation, and development projects in Somalia. One key example is the establishment of the Danish Refugee Council Diaspora Programme funded by the Danish aid agency DANIDA. This fund, established for Somali and Afghan refugees, provides financial support and offers training programs on the design, planning, and implementation of development projects. To date, it has supported projects such as midwifery training, the construction of a water pipeline, and childhood education initiatives in Somalia, among others.<sup>45</sup> One Somali interviewee who had participated in the application process indicated, however, that even this program was very complex and required a high degree of Danish language proficiency as well as experience developing programs within the Danish context.<sup>46</sup>

The research team also noted challenges in identifying credible and sustainable diaspora organizations. There is no clear process for establishment, and many of these groups are informal organizations developed according to Somali clan structures. This lack of structure presents challenges for the Danish government's efforts to engage, as the diaspora has yet to establish a clear and unified voice with which to advocate for diaspora issues within the country. This difficulty was illustrated at the recent High Level Partnership Forum Copenhagen, a recent conference organized to maintain momentum in the political transition process established through the New Deal Conference in 2013.<sup>47</sup> The Ministry of Foreign Affairs of Denmark limited event participants to 335 people, with only 205 allowed in the same room as the President of the Federal Government of Somalia, due to security and facilitation concerns. This number is, however, much lower than similar events held in London and Minneapolis.<sup>48</sup> There was also an online registration requirement for the conference, which many felt was discriminatory against the Somali diaspora in Denmark, who often have low levels of general literacy and/or lack computer access.<sup>49</sup> Diaspora organization representatives who met with the research team saw these events as another example of the Danish government's unwillingness to engage with the community or accept them as positive stakeholders, further contributing to feelings of alienation.

In isolated instances, challenges including the difficulties in starting a new life in Denmark and the increasingly xenophobic tone of right-

wing politicians have contributed to members of the Somali diaspora community in Denmark leaning toward radical Islamism.<sup>50</sup> In May 2012, two Danish brothers of Somali origin were arrested on suspicions of plotting a terrorist attack. Both had been residents of Denmark for over fifteen years, yet one was suspected of having undergone training at an al-Shabaab camp in Somalia.<sup>51</sup> Although the crime was not perpetrated by Somali nationals, tensions also escalated with the exposure of a plot to murder staff of a Danish newspaper that had published controversial cartoons of the Prophet Mohammed.<sup>52</sup>

These recent incidents, coupled with the rising fear of returning foreign fighters across the European Union, have renewed concerns about the vulnerability of the Danish-Somali remittance corridor to terrorist financing abuse. As the Danish government develops policy and regulatory frameworks to counter these vulnerabilities, it is important that it also work to ensure that these measures do not further alienate the diaspora community but, rather, are designed to support and foster balanced financial inclusion and regulatory goals.

## **V. Recommendations**

Following the FSA investigation's finding that the compliance mechanisms of one licensed MSB in Denmark were inadequate, the operations of other MSB branches and agents in Denmark will likely be subject to increased scrutiny in the near future. Multilateral engagement among government regulators, Somali MSBs, and financial institutions holding MSB bank accounts to raise sector-wide awareness of AML/CFT legislation and expectations, demonstrate MSB prioritization of compliance, and improve communication will be a proactive step toward preventing worst-case scenarios such as MSB bank account closures or MSB operation freezes. This policy brief provides a preliminary list of recommendations for stakeholders in the MSB system in Denmark:

*Danish governmental AML/CFT regulatory bodies should*

- Translate new Danish AML law and guidance notes into Somali, issue official English translations of these documents, and circulate these translated versions among MSBs to alleviate the language barrier identified by interviewees.

- Conduct an MSB sector assessment to identify trends and favor a risk-based approach.
- Conduct due diligence to identify credible and sustainable diaspora organizations and improve communication with these organizations to demonstrate support and willingness to engage.
- Develop databases for dual citizenship identification to support CDD efforts.
- Issue guidance targeted at MSBs to aid in Suspicious Transaction Report (STR) submission and the implementation of CDD requirements (for example, the origins of the funds being remitted).
- Cooperate with financial institutions holding MSB accounts on how to maintain the accounts of their high-risk customers and encourage their compliance.
- Offer clarification on the differences in licensing for agents, employees, subagents, and main offices and their operations and legality within Denmark.

*Somali MSBs should*

- Submit STRs from Danish branches and agents to regulators and also provide this information to the international headquarters of their companies.
- When submitting STRs to regulators, provide the multiple iterations of spellings of customer names or potential aliases, nicknames, or abbreviations to assist regulators in conducting CDD.
- Select a community spokesperson who represents the majority's views and offers a unified voice for the Somali community in interactions with Danish government officials on pressing issues affecting the diaspora.
- Form a remittance union similar to the UK Somali Money Services Association and elect a leadership to represent the community in discussions with regulators such as the FSA.
- Work with trusted interlocutors such as nongovernmental organizations or community leaders to organize trainings for their branches and agents specific to compliance with the Danish AML act.
- Forge alliances with MSBs serving other diaspora groups in Denmark.

- Maintain open lines of communication and conduct advocacy efforts with banks in Denmark that hold Somali MSB bank accounts to ensure that these financial institutions do not drop the accounts.
- Strengthen information technology systems for Danish branches and agents and hire IT consultants who will maintain current website information—for example, updated lists of agent contact information in each of the cities in Denmark—and who will fortify public websites and internal IT systems against phishing attempts.

*Financial institutions in Denmark holding bank accounts of Somali MSBs should*

- Avoid a “derisking” approach and instead conduct thorough risk assessments of perceived “high risk customers” to determine what actions could be taken to enhance the working relationship with these customers instead of dropping their accounts.
- Improve communication with any identified high-risk customers, and if the decision is made to close their bank accounts, provide them with enough advance notice to make alternate arrangements.
- Encourage cooperation and information sharing with the FSA and the Danish State Prosecutor’s Office for Serious Economic and International Crime (SØIK) in relation to open cases.
- Identify and emulate the best practices of institutions that have successfully maintained relationships with and the bank accounts of high-risk customers.

### **Acknowledgments**

The Global Center gratefully thanks the Ministry of Foreign Affairs of Denmark and the Embassy of Denmark in Addis Ababa for their substantive, ongoing commitment to the Horn of Africa and financial support of this project. The authors especially thank Per Fiiig, Jens Kauffeld Andreasen, Martin Kallehauge, Rie Sjørselev Hansen, and Malene Baadsgaard Nissen for their feedback and assistance.

Thanks and gratitude to all who were interviewed for this study for their cooperation and insights. Many thanks to Global Center New York Office Director and Senior Analyst Liat Shetret for her review of and analytical contributions to earlier versions of this brief, and to Global Center colleagues Ronit Gudes-Totah and Kelly Ogden-Schuette for their assistance and research contributions.

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Suggested citation: Danielle Cotter and Tracey Durner, "Stability and Security: Danish Somali Remittance Corridor Case Study," Global Center on Cooperative Security, February 2015.