

A study of the underground banking system in Sri Lanka – a phenomenon of Boyle’s law

Underground
banking
system in Sri
Lanka

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Abstract

Purpose – The purpose of the study is to examine the available literature to comprehend what the underground banking system is, for what purposes this method is used and how policymakers should proceed to address this issue.

Design/methodology/approach – The approach involved conducting this study and combining it with a critical analysis of the available literature as well as the available historical data. The sources the study has explored include government documents, public hearings, academic articles, case studies and articles available on the internet.

Findings – The study revealed prevention of illegal proceeds is critical, still regulating one entity, is a phenomenon of Boyle’s law, “squeezing the balloon”. If one end of the balloon is squeezed, making the volume smaller, the pressure inside increases, making the un-squeezed part of the balloon expand out. The real issue is not how criminals transfer their illegal earnings; it is the criminals themselves. Hence, the policy decision on this issue needs to be carefully considered.

Research limitations/implications – Due to the complexity of the operating system of Undiyal, this study had a number of limitations, as do many others. Firstly, there are no records of the Undiyal agents or the volumes of transactions publicly available. However, comprehending the scope of the underground operation that exists in the country is quite difficult.

Practical implications – The study contributes to the academic researchers grasping what type of future research should be focused on in this area according to the study.

Social implications – From the point of view of its practical application, the study seeks to resolve social issues that the middle-class population experiences on a daily basis and that have a huge and adverse impact on GDP.

Originality/value – To the best of the authors’ knowledge, this is an original contribution.

Keywords Underground banking system, Money laundering, Terrorist financing, Remittances, Boyle’s law

Paper type Literature review

Introduction

The term “underground banking system” refers to a money or value transfer system that operates informally (Makkai, 2005). Due to their geographic linkages, informal systems are defined by specific terms like hawala, hundi, Fei ch’ien, hoe Kuan and many others. It is often known as Undiyal in Sri Lanka and Fei ch’ien or Chit in South Asia (Aiken and Cheran, 2005, p. 9). The beauty of this method is that it allows for the completion of transactions between jurisdictions without the transfer of physical money (Ladányi and Kobolka, 2012). Terrorist organizations and money launderers potentially use the underground network to transfer their illicit funds from one country to another. According to Anwar Daudi (2005), Time Magazine published an article titled “A Banking System Built

