

PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR



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**INTERVENTION BY THE GOVERNOR OF THE CENTRAL BANK OF SAMOA, ATALINA AINUU-ENARI, AT
THE COMMONWEALTH CENTRAL BANK GOVERNORS MEETING, LIMA PERU, 6 OCTOBER 2015**

Mr. Chairman,
Fellow Governors,
Distinguished Delegates,
Ladies and Gentlemen,

We are very appreciative and highly grateful to the Commonwealth Secretariat for yet again emphasising this development issue that may be too small or negligent from a global view but too important from a small island state development perspective, particularly a country like Samoa that is greatly reliant on remittance inflows. Before I comment on the proposed policy options in the discussion paper, let me put things into perspective.

1. Samoan Diaspora is vast and global - where there are more Samoans living abroad in New Zealand, Australia and the United States
2. Despite their geographical location – these Samoan expatriates still maintain close familial, cultural and financial ties to Samoa
3. Subsequently they are the main source of tourism receipts through spending of *Visiting Friends and Relatives* (VFRs) and as the primary *senders* of remittances to Samoa.
4. Remittances provide a lifeline to most SIDS including those in the Pacific region. In Samoa alone, remittances are around 20 percent of our GDP. It is also the main source of foreign exchange to the Samoan economy.

CHALLENGES TO EXPANDING REMITTANCES AND CROSS-BORDER PAYMENTS

1. According to the World Bank's *Migration and Development Brief April 2014*, the East Asia Pacific region is the second highest costly destination for remittances.
2. In Samoa, statistics indicate that Money Transfer Operators (MTO) handle at least **80.0 percent** of the remittance inflows compared to around **20 percent** through the banking channel.
3. Remittances sent through MTOs from Australia and New Zealand is at least **11.0 percent** cheaper than those that come through the banking system. Samoa's banking system consists of two Australian (subsidiaries) commercial banks and two locally owned commercial banks.

- a. For Q4 2014, to send AUD\$200 to Samoa, the total average cost of sending from banks was **19.94 percent** compared to **7.05 percent** by the MTOs (*source: remittanceprices.worldbank.org/en/corridor/Australia/Samoa*)
- b. For the same period, to send NZD\$200 to Samoa, the total average cost through the banks was **16.69 percent** compared to the MTO's average cost of **8.85 percent**

(The questions are:

- a. **Are the commercial banks earning enough revenue from this tedious and time-consuming process of sending money to the Pacific and Samoa;**
 - b. **Is the volume of these transactions of real value and interest to these commercial banks;**
 - c. **What are the commercial banks doing to lower the cost of sending money to the Pacific and Samoa (exchange rate and cost of remittances);**
4. As a small island developing state, connectivity and financial inclusion with the global community is a very real development challenge.
 5. However, the unintended consequences of AML/CTF regulation have imposed very real challenges by the developed world that poses peculiar challenges to small island states.

(The questions are:

- a. **Did our small island states representatives at these AML-CTF standard setters meetings do enough to be heard and respected at these meetings?**
 - b. **Do developed countries ever think about development efforts or are they out of touch with developing countries' efforts?**
 - c. **Do developed countries ever think of developing countries when imposing hefty fines on AML-CTF deficiencies of the global financial system?**
 - d. **Are the developed countries too big to know any better?**
 - e. **Are the developed countries too big and powerful to even consider a case-by-case approach on de-risking of AML-CTF measures;**
6. With respect to Samoa, as recently as the end of March 2015, all the major Australian commercial banks have closed bank accounts of most Samoan linked money transfer operators' agents to minimize "*the risks associated*" with Anti-Money Laundering – Counter-Terrorism Financing (AML-CTF) requirements.

(The questions are:

- a. **Is AML-CTF de-risking approach by commercial banks of the developed world anti-competitive – that is, financial terrorists of development in the developing world?**
- b. **Is the de-risking approach by commercial banks of the developed world the cause of financial exclusivity?**

7. The wholesale closure of MTO bank accounts in Australia and New Zealand is a financial exclusive and anti-competitive strategy.
 - i. Already, the flows of remittances from Australia and New Zealand for the affected MTOs in Samoa have declined since the closure of the MTOs bank accounts
 - ii. Subsequent results of these AML-CTF requirements being implemented by the Australian and New Zealand commercial banks could see the senders revert to the banking system who charge significantly higher costs of remittances. Again, contrary to efforts already laid out by the World Bank and other international organizations.

(The questions are:

- a. Are these actions by commercial banks paving the way for keeping cash out of the financial system?**
- b. Is this a sign or indicator that reverting back to the hand carrying of money in suitcases across-borders the way forward?**

Having said all that, Samoa is a country that is located in the Pacific region where it is relatively safe and peaceful. Therefore, its remittances corridor is the furthest away from corridors of AML/CTF concerns (relative to size and volume), since most of its remittances are within Oceania (Australia and New Zealand to Samoa). Premised on this knowledge and understanding, Samoa will agree to the following policies.

1. Firstly, we agree that capacity building is necessary. That is regulators, financial institutions and commercial entities are more able to implement the appropriate FATF Standards and other regulatory requirements to country risks.
2. Secondly, Samoa concurs that best practice standards should be fully adhered. That is, a list of reputable MSBs is established and inclusion to this list of safe MSBs requires adhering to agreed standards of appropriate country risk management. These standards would be compiled through engagement with banks to determine the measures necessary for MSBs to satisfy banks' internal risk standards in the regions concerned.
3. Thirdly, Samoa notes that global forums play a critical role on remittances and financial inclusion. This can be enhanced to share information (such as identified risks) and appropriate best practice as well as harmonise approaches to regulation.
4. Fourthly, Samoa will only agree to an impartial appeals process as a future action going forward as de-banking has already been enforced by commercial banks operating in our region.
5. Fifthly, Samoa recognises that a bank service for 'higher risk' MSBs be provided for those MSBs that have had accounts closed. The bank will engage with domestic regulators and the FATF to identify compliance issues, and work directly with MSB to improve standards with the aim of re-opening the MSB's commercial bank account.
6. Lastly, Samoa sees the creation of a safe –harbour for banks encouraging in the easing of banks' concerns over liability for AML/CTF breaches by their customers. We also encourage foreign regulators to be more engaged and well aware of region and country context and not overzealous with the general application of their penalties – it should be a case by case approach and the cost to fit the crime.

In the event that all these policies are written without any teeth and context consideration, Samoa urges the knowledgeable and understanding civilised world to agree to the following:

- 1. That a government bank account abroad (Australia and New Zealand) be established and agreed upon;**
- 2. These bank accounts are clearing facilities where the government through Central Bank will only payout (the difference between inflows and outflows) in Samoan currency to MSBs licensed and operating in Samoa;**
- 3. Government will hold the foreign currency accounts abroad (New Zealand and Australia) and later transferred to Central Bank;**
- 4. This will ensure the following:**
 - a. that the level of foreign reserves through remittances is safeguarded;**
 - b. that this financial service is accessed cheaply;**
 - c. that competition among financial service providers is fair and just;**

Samoa will only pursue this strategy as a last resort (option) given the unfair approach rendered by the bigger corporate sector on small island states. Such a clearing facility will be temporarily made available (that is, will cease) subject to a favourable consideration on this matter by all affected parties.

Thank You for your attention.