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Governor's Briefing – Re-Risking the De-Risking

Friday 9th September, 2pm

Does Technology hold the answers to stem the tide of de-risking and promote re-risking?

Distinguished Guests,

Ladies and Gentlemen,

We strongly disagree that technology holds the answers to stem the tide of de-risking and to promote re-risking when we all know for a fact that the root or cause of this issue is the non-US commercial banks operating in the Pacific remittance source markets losing their United States (US) corresponding banking relations.

Our knowledge and experience acquired throughout the years suggest that we should firstly comprehend the root or cause of the de-risking issue before we could devise practical solutions consistent with the Pacific context including Samoa. With that wisdom and common sense approach, we can clearly see the misuse and excessive abuse of the word "de-risking" to describe the effective application in these Pacific remittance source markets of the "wholesale de-banking" of Money Transfer Operator(MTO) agents. It is that perfect and well-orchestrated strategy by the commercial banks in the Pacific remittance source markets to partially eliminate an AML-CTF compliance risk or lose their United States (US) correspondent banking relations.

1. De-risking is not a significant problem in the Caribbean, African, Middle East and Asian regions. *Why is this*? There are either US or European commercial banks currently operating in these regions and their population sizes can sustain such operations or services.

2. The use of AML-CTF as an excuse to de-bank MTOs:
   a. According to the Australian Transaction Reporting Center (AUSTRAC), it does not classify countries by risk and has not made an assessment of Samoa or Pacific countries.

   i. **Remittance**, **banking**, **casino** and **other businesses** of similar nature are regarded as generally higher-risk channels for money laundering (ML) and for terrorism financing (TF) in some of the publications;
   ii. The Australian AML/CTF regime requires the industry to assess their ML/TF risks posed by a range of factors (e.g. customers, delivery channels) including the foreign jurisdictions with which they deal with. The higher levels of scrutiny in relation to higher risk countries – but do not specify particular high-risk countries, and Samoa has not been specified as a high-risk jurisdiction. The regulated entity is also required to make that assessment .i.e. in this case, it is the commercial banks that is required to assess the MTO business on risk.

3. The high usage of money transfer operators in the Pacific remittance markets is also a function of the behavioral pattern of the Diaspora population in our two main source markets as follows:
   a. The fixed and relatively small remittance fees[1] for the high frequency and small amounts through the MTO channel is much cheaper than using the banking system. .i.e.
      i. the banking system charges higher transfer fees for both the sender and recipient of these remittances – *cost is cheaper*;
      ii. higher administration costs for the banking system for these remittances – *lower MTOs' administration costs*;
   b. The convenience and the ease of access to these remittances make MTOs more attractive.– *public confidence and ease of access*;
   c. The familial nature of the remittance to the Pacific including Samoa makes it harder to use the banking system to identify the actual recipient and sender of these payments. i.e. there are only individual not family accounts – *customer service oriented*.

4. The major and known risk envisaged by Pacific jurisdictions like Samoa is it being used as a conduit[2] for money laundering and the countering of terrorism financing.

5. In Samoa alone, available statistics on financial inclusion indicate that:
   a. Only 0.7 percent of adults have transferred money through mobile financial services in the last 12 months (for person to person transfers and payment of utility bills)
   b. Less than 3 percent have some form of mobile wallet or access to mobile financial services,
   c. 49 percent of Samoan adults are excluded from formal financial services, and
   d. 70 percent of adults aged between 15 – 20 are completely excluded from financial services,

6. In terms of remittance flows into Samoa, only 3.0 percent[3] of total remittances in FY2015/2016 were received through electronic methods (i.e. mobile and/or website online transfers). Most of the beneficiaries in Samoa still prefer the person-to-person approach at the commercial banks or MTO branches.

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[1] This fee only applies to the sender as there is no fee for the recipient.

[2] Samoa is being used as a conduit for money laundering. That is, money launderers transfer their money around countries or different jurisdictions in order to disguise the origin of the funds. The more countries they use in this transfer, the harder it is for law enforcement to literally trace and track down the origin of the laundered funds. We suspect that Samoa is being used as a conduit by criminals to temporarily park their laundered funds in order to get transferred to the next jurisdiction. Another reason why criminals do this is to ensure that after all these transfers; the funds will end up in a tax haven country or a country that has very relaxed Anti-Money Laundering and Countering Terrorist Financing Regimes and Legal Frameworks. It is only then that they will withdraw and start enjoying their proceeds from their criminal activities.

[3] Central Bank of Samoa Staff estimates

These statistics therefore indicate that despite progress in mobile and internet services in the last 10 years, there is little uptake in technological instruments when it comes to the transfer of money within the country or across borders.

It is based on these known facts that the advancement in technology **does not** present or hold answers to the de-risking issue.

The answer to the current de-risking issue is the need to bypass the US correspondent banks <u>not</u> advancement in technology that people do <u>not</u> have the confidence in. i.e. having a framework that only involves the source and recipient markets of remittances inflows. Such de-risking framework should also be widely accepted by the users of such remittance services in terms of the appropriateness of the technology applied and used.

Thank you.

Relevant Documents

1. *Commonwealth Secretariat Paper for G20 (2014), Walking a Tightrope AML/CTF Regulation, Financial Inclusion and Remittances;*
2. *Commonwealth Secretariat Paper on De-risking (2016): The Impact of AML/CFT Regulations in Commonwealth Developing Countries;*
3. *SWIFT, "White Paper, Correspondent Banking 3.0", 9 January 2012.*

International Monetary Fund (2016), The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action

<u>Additional Information</u>

Value of US Correspondent Banking Relations

1. With Samoa's accession as a member of the World Trade Organization and also its graduation from a Least Developing Country, it has become more open and subjected to the effects of globalization. It in this vein that the value of having correspondent banking relations with different commercial banks in various jurisdictions are critical for Samoa's existence and its ability to embrace the free trade opportunities and its challenges. This is more acute in ensuring that its local banks are more equipped and are globally competitive in trading and finance.
2. To put things into perspective:
   Samoa and the rest of the small island states of the Pacific region all share the following characteristics:

   a. Many of our expatriates now live in New Zealand, Australia and the United States.
   b. Despite their various locations, these expatriates still maintain close familial, cultural and financial ties to their island countries.
   c. As such, remittance inflows from New Zealand and Australia to Samoa (and perhaps most of the Pacific) are generally for consumption and personal investment purposes, particularly towards these family and cultural obligations.
3. For Samoa itself, our expatriates are the main source of tourism receipts through spending of those that 'visit friends and relatives' (VFR) as well as being the primary senders of personal remittances from abroad.
4. Remittances are one of the main sources of foreign exchange and they provide a lifeline to most SIDS including those in the Pacific region. For Samoa, remittances account for approximately 20.0 percent of our GDP where these remittance inflows for2015/2016 are as follow:
   a. New Zealand –42.0 percent;
   b. Australia – 33.3 percent;
   c. US – 15.0 percent;
   d. American Samoa – 5.6 percent;
   e. Other countries – 4.1 percent;
5. For July 2015 to June 2016, an average of 88.0 percent of remittances came through money transfer operators (MTOs) whereas the remaining 12.0 percent used the commercial banks channel.
6. In its *Migration and Development Brief in April 2014*, the World Bank identified the East Asia Pacific region as the second highest costly destination for remittances. Tractions were made to reduce these costs, however this unfortunate situation has provided an outcome contrary to the intent.
7. According to the SendMoneyPacific website, remittances sent through MTOs from Australia and New Zealand is at least 11.0 percent cheaper than those that come through the banking system.
8. The New Zealand Government has supported Samoa through the identification of the cause of this de-risking issue and the potential adverse effects on Samoa's economic development hence the New Zealand Government through the Deputy Prime Minister and Minister of Finance:
   a. Had established the NZ Task Force to look at options to address this development issue.
   b. Had the acknowledgement by the US Treasury that the US correspondent banks may have had a role to play on the wholesale de-banking of Australian commercial banks.