



PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(24)FEMM.7a

FORUM ECONOMIC MINISTERS MEETING

1-2 August 2024

Suva

AGENDA ITEM 7A: CORRESPONDENT BANKING RELATIONSHIP ROADMAP IMPLEMENTATION UPDATES

Purpose and Summary of Issue

Purpose

The paper provides a progressive update on the Correspondent Banking Relationship (CBR) work undertaken by the Secretariat in collaboration with key partners to date. The paper highlights the development and implementation of the CBR Roadmap (Roadmap), and several outcomes achieved to date.

Summary

In the last Forum Economic Ministers meeting (FEMM), the Secretariat presented the findings of the diagnostic study undertaken by the World Bank regarding the de-risking challenges affecting Pacific Island Countries (FICs). The diagnostic study identified eight interrelated priority recommendations and the subsequent priority actions to be undertaken under each of the recommendations.

The Secretariat and the World Bank developed the Roadmap, which was endorsed for implementation by the Pacific Economic Sub-Committee (PESC) in February 2024.

The Roadmap is a multi-year plan that provides eight recommendations and 37 prioritised and sequenced measures to address de-risking in the Pacific. This includes the collection of standardised CBR data, standardised reporting and action on anti-money laundering and combating the financing of terrorism (AML/CFT), information-sharing frameworks and CBR resilience, remittance corridor risk assessments, and underscoring the need for sustained and coordinated effort by FICs and development partners. The Roadmap sets out a cooperation and coordination mechanism for implementing the recommendations from the World Bank diagnostic study. The Roadmap is attached as *Annex 1*.

Several outcomes achieved since February include the convening of the CBR High Level Event in Sydney, Australia, the development of the World Bank Pacific Strengthening Correspondent Banking Relationship Project, the establishment of the Pacific De-risking Group, the extension of the CBR diagnostic study to include the Federated State of Micronesia (FSM), Republic of Marshall Islands (RMI) and Palau, and the convening of the Pacific Banking Forum (PBF).

A. Background

In the last FEMM meeting, the Secretariat presented the findings of the diagnostic study undertaken by the World Bank regarding the de-risking challenges affecting FICs. The diagnostic study identified eight interrelated priority recommendations and the subsequent priority actions to be undertaken under each of the recommendations.

2. For context, these recommendations include the following:

- (i) The Forum should continue to support action by Forum members to meet global financial standards and to collaborate with counterparts to improve tax transparency.
- (ii) The Forum should support broad Pacific Island piloting of the draft remittance corridor risk assessment methodology developed by the World Bank and the International Monetary Fund (IMF). The Secretariat should analyse the outcomes of these assessments to inform appropriate risk assessment methodologies that would provide improved risk-related information to respondent and correspondent banks, AML/CFT - regulated businesses and their regulators in relation to the Pacific.
- (iii) The Secretariat should encourage and guide efforts by central banks and Ministries of Finance of members to collect relevant CBR data and support the reporting of annual trends to Forum ministers. This may include negotiating better access to SWIFT data for the region.
- (iv) The Secretariat should assess the strengths and gaps in current financial integrity information-sharing frameworks and practices among members in relation to key Pacific payment corridors and advise on appropriate improvements and frameworks to support alignment, where required.
- (v) The Secretariat should provide a platform for Pacific engagement with appropriate parties to key Pacific CBR corridors to explore the feasibility and design of cross-border public-private partnerships and regulatory safe harbour CBR frameworks for Pacific jurisdictions.
- (vi) The Secretariat should undertake a diagnostic assessment of the enabling environment for the banking sector to identify opportunities for strengthening. The first step would be to develop an appropriate methodology for such a diagnostic.
- (vii) The Secretariat should advise on an appropriate regional strategy in relation to the innovations and changes that may flow from the G20 'Roadmap for Enhancing Cross-border Payments' project. This should be a regional initiative to overcome capacity and resource constraints.
- (viii) The Secretariat should develop a CBR resilience framework, take stock annually of de-risking actions and report on progress towards CBR resilience.

3. Forum Economic Ministers considered the diagnostic report and directed the Secretariat to work with the World Bank to prioritise the recommendations, develop a roadmap and progress the implementation of regional recommendations, with the support of relevant development partners and in consultation with Members through the PESC and ahead of the next FEMM.

4. The Secretariat and the World Bank have developed the Roadmap and presented it to the PESC in February 2024. The PESC subsequently endorsed the Roadmap for implementation.

B. The CBR Roadmap

5. The Roadmap is a multi-year plan that provides eight recommendations and 37 prioritised and sequenced measures to address de-risking in the Pacific. This includes the collection of standardised CBR data, standardised reporting on AML/CFT action, information-sharing frameworks and CBR resilience, remittance corridor risk assessments, and underscoring the need for sustained and coordinated effort by FICs and development partners. The Roadmap sets out a cooperation and coordination mechanism for implementing the recommendations from the World Bank diagnostic

6. The prioritised actions have been prioritised to be implemented within three months and six months from the date of Roadmap endorsement. The following actions have been identified to be completed within three months:

- extending the PIF/World Bank study to include coverage of the three USD-based economies - the FSM, RMI and Palau;
- identifying volunteers for a pilot of the draft remittance corridor risk assessment methodology;
- creating a group of regional champions on key CBR topics; and
- holding an information event (in Sydney or Suva) in the first quarter of 2024 to share the report and discuss its implications with public and private sector stakeholders.

7. In addition, the following deliverables have been identified as **high priority** and should be completed **within six months**:

- developing a dashboard of action by FICs jurisdictions to meet required AML/CFT/CPF and tax transparency standards;
- developing a template for CBR data collection and agreeing on the identified priority countries collecting data from the banks;
- holding a workshop with public-private partners for preliminary discussions on the need for, and feasibility of, design options relating to potential solutions, including regulatory safe harbours, to address the de-risking of CBRs in the Pacific;
- holding tripartite meetings with relevant authorities in home countries and correspondent banks to determine common factors to estimating reasonable costs for CBR services;
- developing a metric for determining the target state of CBRs in a jurisdiction; and
- developing a template for annual reporting to PIF Members on the state of CBRs in the Pacific.

8. The remaining deliverables are categorised as High-Medium, Medium and Medium-Low priority, and should be completed within 12 months, 18 months and 24 months.

C. Implementation Status

9. Since the endorsement of the Roadmap in February 2024, the Secretariat and the World Bank have been diligently working to implement these priority action items. The following paragraphs highlight several outcomes achieved to date.

CBR High level event

10. The CBR High Level Event (the Event) was held on the 28-29 March, at the Radisson Blu Plaza Hotel, Sydney, Australia. The Event was well attended by Forum Member representatives from Australia, Cook Islands, Fiji, FSM, Kiribati, Nauru, New Zealand, Palau, Papua New Guinea, RMI, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

11. The Event focused on strengthening the resilience of FICs facing the withdrawal of their CBRs services from key currencies. It is the first step in the implementation of the Roadmap endorsed by the PESC in February 2024. The Event also advanced discussions on the design of potential multilateral financing options to provide sustainable solutions to the challenge of de-risking in the Pacific.

12. A key outcome of the Event was the presentation and discussion on the World Bank's proposed Pacific Strengthening Correspondent Banking Relationship Project (the Project).

Pacific Strengthening Correspondent Banking Relationship Project

13. The proposed Project aims to address the FICs most vulnerable to the withdrawal of CBR by international banks. The Project aims to deliver continuous CBR services through a contingency funding mechanism as short-term measure, and a regional CBR facility in the long run. The other components of the Project include the strengthening of payments systems and improving the enabling environment to support the provisioning of CBR services. The financing resources of the Project will be financed through World Bank's International Development Association (IDA) grants.

14. The detail of the Project are presented in agenda item 7b, paper reference PIFS(24)FEMM7b.

Establishment of the Pacific Derisking Group

15. In its February meeting, PESC also endorsed the establishment of the Pacific Derisking Group (PDG). The PDG is intended to act as a high-level committee, to provide oversight for the implementation of the Roadmap. The PDG is a pre-condition to the implementation of the Roadmap.

16. The PDG's primary responsibilities are to coordinate implementation of the Roadmap in alignment with global and regional de-risking initiatives; conduct strategic oversight and monitoring of implementation progress; address or escalate any roadblocks to effective implementation; and facilitate active participation of FICs in implementing solutions to address vulnerabilities

17. The PDG is co-chaired between a FIC and the World Bank. The Co-chair from the FIC will be based on the current Forum's troika chairing mechanism. Tonga has assumed co-chairing responsibilities as incoming chair of the Fourm. The first meeting of the PDG was held on 17 May 2024.

Extension of Diagnostic Study

18. The initial CBR Diagnostic study undertaken by the World Bank did not include Micronesian countries that use US dollars as their main currency. Consequently, Economic Ministers **directed** the Secretariat to ensure momentum is maintained and to work with the World Bank to include coverage of FSM, RMI and Palau. The extension of the study to include FSM, RMI and Palau is complete.

19. The key findings of this work are that out of the three jurisdictions, the Marshall Islands is facing significant challenges with respect to the de-risking of CBRs. The Bank of Marshall Islands is at risk of losing its sole CBR with the First Hawaiian Bank, which would cause significant disruption to trade and remittance services. The other licensed bank, the Bank of Guam, has direct access to payment services of the US Federal Reserve system, but the bank has expressed concerns over the cost of AML/CFT regulatory compliance and there is no guarantee it will continue to maintain its presence in the Marshall Islands. For Palau, while there are no significant concerns about CBRs at present, the local banks' reliance on two US banks – the Bank of Guam and the Bank of Hawaii - is recognised as a vulnerability. The Federated States of Micronesia has reported no CBR issues.

20. All three jurisdictions are working with the development partners on improving ML/FT/PF risk management and the enabling environment for CBR services, including digital infrastructure. The Marshall Islands and Palau¹ have expressed interest in participating in the World Bank CBR Project, which would provide emergency access to CBR services and would also support further strengthening of the enabling environment for the banking sector.

Pacific Banking Forum

21. The Pacific Banking Forum (PBF) was co-hosted by the Australian and United States (U.S.) Governments and convened on 8-9 July 2024 in Brisbane, Australia. The Forum delivered Prime Minister Albanese's and President Biden's commitment to work with Pacific Island countries (FICs) and public, private and multilateral sector partners in the region to address the decline of correspondent banking relationships (CBRs) in the Pacific. The Forum supported the Pacific Islands Forum Secretariat's (PIFS) [CBR Roadmap](#), a multi-year plan with recommendations, actions, and benchmarks for FICs and development partners to address the decline of Pacific CBRs. Specifically, the Forum complemented the CBR Roadmap initiative to convene public-private partners to understand the key issues and to support engagement between governments and correspondent banks.

22. The PBF brought together Finance Ministers, Central Bank Governors, regulators, international financial institutions (IFIs), multilateral development banks, policy makers, Financial Intelligence Units (FIUs) and commercial banks to address critical issues with CBRs in the region. The outcome statement is attached as *Annex 2* of this paper.

23. In summary, the discussions during the PBF reiterated that CBRs are an integral component of cross-border payments which support vital remittance, trade, and investment flows into and out of the Pacific. New data presented at the PBF helped all delegates come to a common understanding that the Pacific region has experienced the fastest withdrawal of key CBRs in the world, especially for

¹ Palau is not eligible for International Development Association (IDA) funding, but could be covered in the World Bank Project, provided that parallel financing from other development partners could be mobilized.

USD transactions. The decline of local bank and remitter access to key payment systems presents challenges to economic resilience, economic growth and financial stability and inclusion in the Pacific. Limited profitability, higher costs, lack of scale, challenges in mitigating financial crime risks, and uneven effectiveness of anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks are identified as key drivers of de-risking in the region.

24. Importantly, commitments were made by FICs, the Pacific Islands Forum, Development partners (Australia, United States, New Zealand, Japan and Canada), international financial institutions (World Bank Group, Asian Development Bank, International Monetary Fund), Asia Pacific Group on Money Laundering, and participating Correspondent Banks. Australia and the United States, as co-hosts, are committed to working closely with delegates to maintain the momentum from the PBF and ensure the expeditious implementation of all commitments.

D. Next Steps

25. The Secretariat remains committed to work with Members and the World Bank, including other key partners to implement the Roadmap.

Pacific Islands Forum Secretariat
19 July 2024

Annex 1: CBR Roadmap

A detailed Roadmap is presented below. It includes a list of actions required to deliver on the WB recommendations, with priority, responsibility and timeframe assigned to each action. Deliverables for addressing each recommendation are also included.

The Roadmap is a multi-year plan, which will commence on the day it is endorsed by a relevant forum (e.g., PESC) (Commencement). The Roadmap will require a sustained and coordinated effort by PI countries and key development partners. Given capacity constraints and competing priorities of stakeholders, deliverables from the Roadmap need to be prioritized in order of urgency/importance, impact and effort required. Some deliverables will act as a pre-condition for other actions and deliverables.

The following scale is used in assigning priority and timeframe to each action:

Priority	Description	Timeframe (from Commencement)
Critical	Urgent/Pre-condition - actions that must be completed to set the Roadmap in motion	Within 3 months
High	Urgent/High impact – actions needed to uplift standards and provide a strong foundation for focusing attention on the prevention of CBR losses before they eventuate through timely identification of issues	Within 6 months
High-Medium	Important/High impact – actions that are aimed at exploring potential medium- to long-term solutions, will have a high impact on outcomes when implemented and will require a high level of coordination across public and private sector stakeholders	Within 12 months
Medium	Important/High impact/Significant effort – actions with high impact, but will require significant effort	Within 18 months
Medium-Low	Good practice/Medium impact/High effort – actions that are desirable and good practice, but are not critical or high impact, and can be undertaken if there is capacity	Within 24 months
Low	Good practice/Low impact – Currently there are no Low priority actions	> 24 months

Recommendation 1: The Forum should continue to support action by PI jurisdictions to meet required standards and to collaborate with counterparts to improve tax transparency.			
Action	Priority	Responsibility	Timeframe
1. Develop a dashboard ² of the status and actions by PI jurisdictions to	High	PIF Secretariat, in collaboration with	< 6 months

² Schematic overview of the current state.

meet the international standards on AML/CFT/ CP)		PIRI and the WB, and with support from the APG, IMF and ADB	
2. Identify and summarize any roadblocks, actions needed by jurisdiction to uplift standards and timelines to progress	High	PIF Secretariat in collaboration with the WB, with support from the APG, ADB and IMF	< 6 months
3. Monitor progress and present the dashboard and the summary of roadblocks, actions needed by jurisdiction to uplift standards and timelines to PIF members on an annual basis. This will enable PIF members to assist local banks to take action to meet the required standards quickly.	High	PIF Secretariat, with support from the WB	< 6 months
4. Engage with counterparts (particularly in the EU ³) to improve tax transparency	High - Medium	PIF members with support from the WB and the IMF	< 12 months
5. Coordinate with the APG, ADB and other development partners to support action by PI jurisdictions to meet required standards	Medium - Low	The WB, APG, ADB, donors and other development partners	< 24 months
Deliverable: A dashboard of action by PI jurisdictions to meet required AML/CFT/CPF and tax transparency standards is developed, and a report presented to the PIF.			< 6 months

Recommendation 2: The Forum should support broad PI piloting of the draft remittance corridor risk assessment methodology developed by the WB and the IMF. The Secretariat should analyse the outcomes of these assessments to inform appropriate risk assessment methodologies that would provide improved risk-related information to respondent and correspondent banks, AML/CFT/CPF-regulated businesses and their regulators in relation to the Pacific.			
Action	Priority	Responsibility	Timeframe
6. Identify volunteers for piloting the draft remittance corridor risk assessment methodology	Critical	PIF Secretariat, with support from the WB and IMF	< 3 months
7. Undertake risk assessments	Medium	The WB and/or IMF	< 18 months
8. Analyse outcomes of the risk assessments and prepare a report	Medium	The WB and IMF, with support from PIF members and other stakeholders	< 18 months

³ Currently, five PIF Members are included in the EU list of non-cooperative jurisdictions for tax purposes: Fiji, Marshall Islands, Palau, Samoa and Vanuatu.

9. Engage with respondent and correspondent banks to discuss the outcomes of the risk assessments	Medium	The WB and IMF, with support from the PIF members, PBF and other stakeholders	< 18 months
10. Consider changes to legislation and/or regulatory requirements that may be required for reducing the risk and the sharing of improved risk-related information to CBR counterparts and their regulators	Medium - Low	PIF members in collaboration with the WB and supported by the IMF, APG and ADB.	< 24 months
Deliverable: Risk assessments completed, and a report prepared.			< 18 months
Recommendation 3: The Secretariat should encourage and guide efforts by central banks and Ministries of Finance of members to collect relevant CBR data and support the reporting of annual trends to Forum ministers. This may include negotiating better access to SWIFT data for the region.			
Action	Priority	Responsibility	Timeframe
11. Develop a simple template for PI central banks and regulators to collect CBR data from respondent banks	High	PIF Secretariat, in collaboration with PIRI, and with support from the WB	< 6 months
12. Reach agreement on the priority countries sending the template to the banks and collecting and reviewing data for reasonableness	High	Priority countries, with support from the PIF Secretariat	< 6 months
13. Send letters to SWIFT to allow sharing of the SWIFT data with the WB	High - Medium	PI central banks and Ministries of Finance	< 12 months
14. Negotiate and agree an approach with SWIFT for the sharing of the SWIFT data with PI jurisdictions that don't have central banks	High - Medium	PIF Secretariat, with support from the WB	< 12 months
15. Develop a template for annual reporting to PIF members on the state of CBR in the Pacific Regular collection, analysis, and reporting of CBR data is intended to act as an early warning system, with a shift in focus from addressing the loss of CBRs to taking preventative steps to mitigate the risk before it eventuates.	High - Medium	PIF Secretariat, in collaboration with PIRI, and with support from the WB	< 6 months
Deliverable: Templates for CBR data collection and annual reporting to PIF members developed.			< 6 months

Recommendation 4: The Secretariat should assess the strengths and gaps in current financial integrity information-sharing frameworks and practices among members in relation to key

Pacific payment corridors and advise on appropriate improvements and frameworks to support alignment, where required.			
Action	Priority	Responsibility	Timeframe
16. Collate information on the existing financial integrity information-sharing frameworks and practices among PIF members in relation to key Pacific payment corridors	High-Medium	PIF Secretariat with support from the ADB and the WB	< 12 months
17. Develop a list of characteristics for adequate information-sharing frameworks and practices (what good looks like) in relation to key Pacific payment corridors	High-Medium	PIF Secretariat, with support from the ADB and the WB	< 12 months
18. Assess existing frameworks against the list of characteristics for adequate frameworks and practices	High-Medium	PIF Secretariat, with support from the WB	< 12 months
19. Develop a template for monitoring and annual reporting of progress to PIF members	High-Medium	PIF Secretariat, with support from the WB	< 12 months
Deliverable: A report on financial integrity information-sharing frameworks and practices among members prepared for PIF members, and a template for monitoring and annual reporting of progress developed.			< 12 months

Recommendation 5: The Secretariat should provide a platform for Pacific engagement with appropriate parties to key Pacific CBR corridors to explore the feasibility and design of cross-border public-private partnerships and regulatory safe harbor CBR frameworks for Pacific jurisdictions.			
Action	Priority	Responsibility	Timeframe
20. Organise a roundtable with public-private partners to understand the issues, consider potential solutions including regulatory safe harbors, and better understand what those solutions might entail	Critical pre-condition for actions 20 to 21	PIF Secretariat, with support from the WB, PBF and other development partners	< 6 months
21. Engage with the governments in the home countries to correspondent banks to assess political willingness to provide support in reducing the costs and any identified risks of providing correspondent banking	Medium	PIF Secretariat, with support from the WB and PBF	< 18 months
22. Hold tripartite meetings with relevant authorities in a priority PI jurisdiction and correspondent banks to determine common factors to estimating reasonable costs for the	Medium	PIF Secretariat, with support from the WB and PBF	< 6 months

provision of CBR services and estimating any related reputational risk. This could be a test case that can subsequently be replicated for other priority PI jurisdictions.			
23. If any of the potential solutions, including regulatory safe harbors, are identified as sufficiently helpful, organise workshops with the regulators of key correspondent bank jurisdictions to agree on what that would entail	Medium - Low	PIF Secretariat, with support from the APG, WB, IMF, PBF, US Treasury, AUSTRAC and NZ authorities	< 24 months
Deliverable: Prepare an exploratory report on the outcomes of workshops/discussions to facilitate further consideration of potential solutions.			< 12 months

Recommendation 6: The Secretariat should undertake a diagnostic assessment of the enabling environment for the banking sector to identify opportunities for strengthening. The first step would be to develop an appropriate methodology for such a diagnostic.			
Action	Priority	Responsibility	Timeframe
24. Select countries for the diagnostic assessment	Critical	PIF Secretariat, with support from the WB,	< 3 months
25. Scope and develop a methodology for an assessment of the enabling environment for the banking sector	Medium	PIF Secretariat, with support from the WB.	< 12 months
26. Conduct the diagnostic assessment	Medium	PIF Secretariat, with support from the WB	< 18 months
27. Analyse results and prepare a report for the selected country and lessons learnt for PIF members	Medium	PIF Secretariat with support from the WB	< 18 months
28. Monitor progress and report annually to PIF members	Medium	PIF Secretariat with support from the WB	< 18 months
Deliverable: A diagnostic assessment of the enabling environment for the select country/ies conducted and a report presented.			< 18 months

Recommendation 7: The Secretariat should advise on an appropriate regional strategy in relation to the innovations and changes that may flow from the G20 ‘Roadmap for Enhancing Cross-border Payments’ project. This should be a regional initiative to overcome capacity and resource constraints.			
Action	Priority	Responsibility	Timeframe
29. Nominate a regional champion on a key topic/FIC/s related to the G20 Roadmap for Enhancing Cross-border Payments project	Critical	Each Pacific jurisdiction (or groups of 2-3 small jurisdictions)	< 3 months

30. Hold periodic meetings of the group of regional champions for information sharing on key international developments and regional implications and strategies	High - Medium	PIF Secretariat, with support from the WB, and IMF PFTAC	< 12 months
31. Provide an annual update to PIF FEMM on key international developments and regional implications and strategies	High - Medium	PIF Secretariat with support from the WB	< 12 months
32. Organise seminars/training/study tours for the regional champions for capacity building	Medium	PIF Secretariat, with support from the WB, IMF, Bank for International Settlements (BIS) and individual central banks	< 18 months
Deliverable: Regional champions nominated.			< 3 months

Recommendation 8: The Secretariat should develop a CBR resilience framework, take stock annually of de-risking actions and report on progress towards CBR resilience			
Action	Priority	Responsibility	Timeframe
33. Engage with PI central banks/regulators and respondent banks to determine a sufficient level (e.g., the number and quality) of CBRs in each PI jurisdiction	High	PIF Secretariat with support from the WB	< 6 months
34. Engage with local and international banks to understand the expectations of correspondent banks with respect to a specific PI jurisdiction	High	PIF Secretariat with support from the WB and PBF	< 6 months
35. Develop a metric for determining the target state for CBRs in a jurisdiction	High	PIF Secretariat with support from the WB	< 6 months
36. Develop a CBR resilience framework	Medium	PIF Secretariat with support from the WB	< 18 months
37. Develop a template for annual reporting on de-risking actions and progress towards CBR resilience	High	PIF Secretariat with support from the WB	< 6 months
Deliverable: A CBR resilience framework and a template for regular reporting on de-risking actions and progress towards CBR resilience developed.			< 18 months



Australian Government

**Australian
Aid** **The Pacific Banking Forum**
8 – 9 July 2024
Brisbane, Queensland, Australia

Outcomes Statement of the Pacific Banking Forum

The Pacific Banking Forum (Forum) was co-hosted by the Australian and United States (U.S.) Governments and convened on 8–9 July 2024 in Brisbane, Australia. The Forum delivered Prime Minister Albanese’s and President Biden’s commitment to work with Pacific Island countries (PICs) and public, private and multilateral sector partners in the region to address the decline of correspondent banking relationships (CBRs) in the Pacific. The Forum supported the Pacific Islands Forum Secretariat’s (PIFS) [CBR Roadmap](#), a multi-year plan with recommendations, actions, and benchmarks for PICs and development partners to address the decline of Pacific CBRs. Specifically, the Forum complemented the CBR Roadmap initiative to convene public-private partners to understand the key issues and to support engagement between governments and correspondent banks.

The Forum brought together Finance Ministers, Central Bank Governors, regulators, international financial institutions (IFIs), multilateral development banks, policy makers, Financial Intelligence Units (FIUs) and commercial banks to address critical issues with CBRs in the region.

Summary of discussion

CBRs are an integral component of cross-border payments which support vital remittance, trade, and investment flows into and out of the Pacific. The Pacific region has experienced the fastest withdrawal of key CBRs in the world. The decline of local bank and remitter access to key payment systems presents challenges to economic resilience, economic growth and financial stability and inclusion in the Pacific. Limited profitability, higher costs, lack of scale, challenges in mitigating financial crime risks, and uneven effectiveness of anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks are identified as key drivers of de-risking in the region.



Australian Government



**Australian
Aid** 



The Pacific Banking Forum
8 – 9 July 2024
Brisbane, Queensland, Australia

Importance of AML / CFT compliance and effectiveness for access to global economy

Efforts to improve financial sector regulation and supervision across PICs are progressing. However, inconsistencies in the uptake and the effectiveness of AML/CFT regulatory frameworks continue to be a driver of de-risking in jurisdictions. At the Forum, correspondent banks and their home jurisdiction regulators emphasised the need for robust AML/CFT frameworks as a key requirement for receiving correspondent banking services. Participants also noted the benefits of regional harmonisation of PIC regulatory and AML/CFT supervisory frameworks where appropriate, and the role of multilateral partners and regional institutions like PIF and the Asia/Pacific Group on Money Laundering (APG) in facilitating this. Participants also noted the benefits of enduring regional engagement between AML/CFT supervisors. Participants also committed to coordinating the provision of AML/CFT technical assistance across PICs to support effectiveness.

Importance of enabling infrastructure and institutional capacity-building

Foundational building blocks of digital public infrastructure are integral to support both regulatory compliance and financial inclusion, including through well-functioning national payment identification and data exchange systems. At the Forum, participants acknowledged that investment in domestic enabling infrastructure, such as digital identification, payments infrastructure and digital solutions, will support broader financial system resilience in PICs. Government provision of digital identification and other systems to support due diligence will improve the accuracy of these processes and the capability of respondent banks to demonstrate their record keeping and compliance.

Delegate commitments

Pacific Island Countries (PICs)

- | | | |
|---|--|--|
| <ul style="list-style-type: none">• Cook Islands• Federated States of Micronesia• Fiji• Kiribati• Nauru | <ul style="list-style-type: none">• New Caledonia• Niue• Palau• Papua New Guinea• Republic of Marshall Islands | <ul style="list-style-type: none">• Samoa• Solomon Islands• Tonga• Tuvalu• Vanuatu |
|---|--|--|

Recognising the importance of sound AML/CFT frameworks for good governance, financial security, maintaining an environment conducive to investment and private sector development, and access to CBRs, PICs reiterated their ongoing commitment to the Financial Action Task Force (FATF) Standards and the APG mutual evaluation process and coordination of AML/CFT technical assistance through APG processes.

In line with the CBR Roadmap, PICs commit to supporting data collection efforts and acknowledge the development of the CBR Dashboard of Action on AML/CFT Compliance and the CBR Resilience Index will support them to track gaps in AML/CFT action and key information about CBRs in their countries, respectively. Additionally, participants recognised that enhanced cooperation, strong leadership, and sustained participation by key stakeholders are central for the CBR Roadmap's implementation.

PICs are committed to creating the necessary enabling environment to mitigate the growing potential of de-risking. PICs commit to exploring the development of context-appropriate systems and models of digital identification to support improvements to 'know your customer' (KYC) and 'customer due diligence' (CDD) measures, to support financial inclusion for vulnerable and disadvantaged groups and other development outcomes such as delivery of social protection, healthcare, and education, the digitalization of government and the economy, and disaster response. PICs will work with the PIF and development partners to agree to regional solutions that address access to CBRs, including through empowering organisations like the PIFS.

PICs commit to exploring regional solutions to address the long-standing structural issues, including through the World Bank's proposed *Pacific Strengthening Correspondent Banking Relationships (CBRs)* project.

Pacific Islands Forum Secretariat (PIFS)

PIFS will continue to coordinate efforts within PICs to implement the CBR Roadmap, including the outcomes of the Forum.

PIFS will progress through the Forum Economic Ministers Meeting the commitments from the Forum.

Development Partners

Development partners (including IFIs, Australia, U.S., New Zealand, Japan and Canada), commit to coordinate efforts and support solutions to address the structural causes of de-risking. This policy area is complex and there is no single solution to resolve the challenges. To avoid duplicating efforts or undertaking measures in siloes, development partners acknowledge the importance of collaboration and complementarity in their technical assistance activities and working jointly with other partners. The effective management of available resourcing for PICs is essential during this process. Development partners will support the Pacific De-risking Group efforts to coordinate and implement the CBR Roadmap, including institutional capacity-building objectives and other technical assistance efforts to achieve a long-term, practical and sustainable solution.

In line with U.S., Australian and New Zealand objectives to promote reliable, inclusive and trusted financial channels and connectivity in the Pacific, we strongly welcome the World Bank's efforts to enable continuous access to correspondent banking services in PICs. The U.S., Australia, New Zealand and other partners are closely engaged with the World Bank on the design and financing needs for the proposed *Pacific Strengthening CBRs* project, subject to project approval by the World Bank Board of Executive Directors.

United States

The U.S. remains committed to supporting the economic development and growth of PICs, including efforts outlined by the PIFS CBR roadmap to address the decline in Pacific CBRs.

The U.S. commits to provisioning AML/CFT assistance to the PICs in cooperation with the APG, including through the APG's technical assistance forum.

The U.S. commits to supporting the development of banking regulations and AML/CFT expertise in the Pacific through technical assistance capacity-building programs such as partnerships with key financial and law enforcement counterparts, technical exchanges, engaging with Pacific region supervisors in connection with U.S. regulatory agencies' training programs for foreign banking supervisors, and the State Department's International Visitor Leadership Program.

U.S. Treasury plans to host Pacific Finance Ministers, Banking Commissioners and Central Bank Governors during the 2024 Annual Meetings of the World Bank Group and International Monetary Fund (IMF) to discuss progress on commitments made at the Forum. U.S. Treasury will invite relevant stakeholders, including U.S. regulators and correspondent banks.

Australia

Australia commits to supporting PICs to tackle the challenges of de-risking. Australia recognises that addressing this challenge will support PICs' access to the global financial system, enhance economic development, promote gender equality and enable climate finance.

Australia commits to ongoing efforts around law enforcement and criminal justice support and collaboration directly relevant to AML/CFT and combatting financial crime. In addition, Australia continues efforts in supporting Pacific FIUs to build their capacity through the Taipan program and enhanced operation collaboration through the Pacific Financial Intelligence Community (PFIC).

Australia commits to working with PICs, IFIs and other development partners, including by providing:

- an additional AU\$2.9 million to the World Bank to support the development of inclusive and secure digital identity infrastructure across PICs,
- another AU\$1.7 million to the Asian Development Bank to enhance regional compliance with AML/CFT requirements, and
- AU\$1.7 million for the Attorney-General's Department to assist with criminal justice and law enforcement capacity in the region.

New Zealand

New Zealand remains committed to supporting a resilient and stable Pacific banking system in accordance with Pacific priorities. This will be achieved by supporting established programmes, such as the Pacific AML/CFT Capacity Development Programme through the APG, which address the underlying causes of de-risking, and coordinating with the private sector. New Zealand will continue to work closely with Pacific countries, development partners, the APG, and partners in the banking sector, to support the outcomes of the Forum and the implementation of the PIFS CBR roadmap, including a commitment of US\$2 million to the World Bank's proposed *Pacific Strengthening CBRs* project.

U.S., Australian and New Zealand financial regulatory authorities

U.S., Australian and New Zealand regulatory agencies (the regulatory agencies) commit to ongoing engagement with Pacific Island supervisory authorities to facilitate discussion on financial sector issues, regulatory and supervisory matters, and related challenges faced by PICs. In addition, the regulatory agencies will engage with the APG to coordinate and facilitate AML/CFT technical exchanges with PICs.

The regulatory agencies also commit to strengthening ongoing efforts to address de-risking practices from supervised or reporting entities and to continue to align supervisory practices with respective national governments' foreign policy, national security, and financial inclusion objectives.

Japan

Japan, as the incoming co-chair of the APG, plans to promote capacity-building activities for PICs as a priority of the APG. In addition, Japan will work with Australia, U.S., and other bilateral and multilateral development partners to support PICs in addressing the issue of the decline of CBRs.

World Bank Group

The World Bank Group is committed to continuing to support PICs to address the withdrawal of CBRs. The World Bank undertook a comprehensive CBR diagnostic study and is supporting PICs with the implementation of a series of sequenced and time-bound actions contained in the resulting CBR Roadmap.

The World Bank is continuing to support PICs through the preparation of a regional project to address CBR challenges. The proposed *Pacific Strengthening CBRs* project benefits from strong ownership by PICs. As part of project preparations, the World Bank has been providing technical assistance to PICs on key reforms to strengthen AML/CFT legal and regulatory frameworks. In parallel, the World Bank is working on supporting PICs with developing national payment systems and their oversight. This is complemented by ongoing preparation of projects to develop payment systems and digital public infrastructure in PNG, Samoa, and Tonga. These projects build on previous World Bank and IFC engagement to support payment system development in Fiji, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu. Scaled up support for the development of inclusive and secure digital identification systems will help to improve CDD and promote greater access and usage of financial services by Pacific Islanders.

The World Bank is exploring with partners the mobilising of financing for non-IDA eligible countries to participate in the proposed *Pacific Strengthening CBRs* project.

Asian Development Bank

The Asian Development Bank (ADB) reaffirms its strong commitment to working with Pacific members to secure sustainable access to CBRs. The ADB is already assisting countries throughout the Pacific in improving their regulatory frameworks, enhancing their capabilities to comply with AML/CFT requirements, and expanding eKYC and digital CDD. The ADB will step up its support by developing a Pacific eKYC strategy, and addressing critical issues such as digital national IDs as a key building block in overcoming CBR constraints. The ADB will increase the support it provides through technical assistance and strengthening partnerships with other regional development partners, including the World Bank, to undertake investments that will help safeguard Pacific members' access to CBRs, such as enabling infrastructure.

Additionally, the ADB will broaden its networks with international banks, payment providers, and fintech companies to mitigate the shortage of correspondent banking services; and will continue to support Pacific banks through its Trade and Supply Chain Finance Program. These actions will complement ADB's ongoing commitment to improving financial inclusion in the Pacific as a key driver of future prosperity and greater economic and community resilience.

International Monetary Fund (IMF)

In line with the G20 Roadmap for cross-border payments (safe payment corridors building block), IMF staff support PICs' efforts to reduce CBR pressures by providing solutions to decrease compliance and regulatory costs, and more generally adapt the relevant regulatory frameworks to facilitate the use of effective cross-border payments in lower ML/TF risk payments corridors. In the context of the IMF's surveillance and convening powers roles, staff can continue to assist countries with undertaking safe payment corridor analyses and facilitating dialogue on de-risking, AML/CFT and financial regulation, and other factors to address the decline in CBRs. Finally, staff will continue to provide tailored capacity-building assistance to address AML/CFT-related drivers of CBR pressures.

The Asia/Pacific Group on Money Laundering (APG)

The APG supports efforts by its members, development partners, IFIs and the private sector to fast-track risk-based AML/CFT improvements across the Pacific. APG assessments have found mixed levels of compliance and effectiveness across Pacific members. The APG supports the PIFS CBR Roadmap and initiatives coming from the Forum. The APG continues to enhance its processes to coordinate AML/CFT technical assistance between Pacific members and development partners; accelerate the frequency of mutual evaluations to assess AML/CFT compliance and effectiveness of all Pacific members; and deliver targeted technical assistance through the New Zealand-funded Pacific AML/CFT Capacity Development Programme.

Correspondent banks

Participating correspondent banks (the banks) support the objectives of the Forum to address the decline of Pacific CBRs. The banks welcome the commitments from the PICs to enhance their institutional capacities and effectiveness of AML/CFT regimes. The banks further underscore the importance of modernizing financial systems and standardizing AML/CFT regimes to the greatest extent possible throughout the region.

The banks commit to exploring ongoing opportunities and engaging Pacific Island governments and respondent banks to consider strengthening CBRs through the region, in line with countries' enhancements of their AML/CFT frameworks and regional uplift of safe and sustainable banking sectors.

The banks also commit to closely engaging with and providing technical feedback to the World Bank's proposed *Pacific Strengthening CBRs* project to address CBR challenges in the Pacific.



Australian Government



The Pacific Banking Forum
8 – 9 July 2024
Brisbane, Queensland, Australia

Conclusion

All parties agree to work together to grow CBRs in the Pacific region. The Forum has promoted coordination between key stakeholders to uplift capacity and effectiveness in operationalising AML/CFT frameworks, and identify practical and innovative solutions to maintain access to and increase the CBRs available to PICs. Joint coordination between stakeholders is essential to ensure PICs have sustainable and enduring access to cross-border payments and global capital.