

The Decline of Correspondent Banking in Pacific Island Countries

Technical Paper 4: Literature Review: Stocktake of Initiatives to Date

Contents

1	Overview	3
	AUSTRAC	4
	PIRI (Pacific Islands Regional Initiative) Action Plan	5
2	Cook Islands	6
2.1	Improving ML/FT/PF risk management	6
3	Fiji	6
3.1	Improving ML/FT/PF risk management	6
3.2	Improving the enabling environment for CBR services	7
4	French Polynesia	8
4.1	Improving ML/FT/PF risk management	8
5	Kiribati	9
5.1	Improving ML/FT/PF risk management	9
6	Nauru	9
6.1	Improving ML/FT/PF risk management	9
7	New Caledonia	10
8	Niue	10
9	Papua New Guinea	10
9.1	Improving ML/FT/PF risk management	10
9.2	Improving the enabling environment for CBR services	11
10	Samoa	12
10.1	Improving ML/FT/PF risk management	12
10.2	Improving the enabling environment for CBR services	13
11	Solomon Islands	14
11.1	Improving ML/FT/PF risk management	14
11.2	Improving the enabling environment for CBR services	15
		1

12	Tonga	16
12.1	Improving ML/FT/PF risk management	16
	Improving the enabling environment for CBR services	17
13	Tuvalu	17
13.1	Improving ML/FT/PF risk management	17
13.2	Improving the enabling environment for CBR services	18
14	Vanuatu	18
14.1	Improving ML/FT/PF risk management	18
14.2	Improving the enabling environment for CBR services	19
15	Stocktake summary	20

1 Overview

The literature provides some discussion of the solution initiatives that have been implemented to date in each of the Pacific Island Forum members. In this context it is worth noting that a number of multilateral agencies such as the World Bank, the IMF, and the Asian Development Bank (ADB) have been active in partnering with Pacific Island countries in projects designed to improve compliance, information provision, and capacity. Others taking an active role include the International Finance Corporation (IFC), the Australia/Pacific Group on Money Laundering (APG), the Reserve Bank of Australia, AUSTRAC, and the Reserve Bank of New Zealand (Becker 2023b).

Aspects of the multilateral agencies' technical assistance that should be noted include:

1. The Legal Department of the IMF has access to CBR data for member countries.
2. Enabling of eKYC implementation to support remote onboarding is being considered as a possibility by all IMF member countries in the Pacific Islands, with a resource within the Pacific Financial Technical Assistance Centre (PFTAC) available to provide technical assistance.¹
3. A resource within PFTAC is available to provide technical assistance on adopting appropriate Digital Financial Services regulation and strategies and this is being considered by all IMF member countries.²
4. The IMF hosted a workshop on CBDCs, prompting IMF member countries to consider their position on the possible implementation of CBDCs.³
5. The ADB has technical resources and is working closely with the Bank of PNG, Central Bank of Samoa, Central Bank of Solomon Islands, and Reserve Bank of Vanuatu and government agencies on key activities to improve KYC capacity. The work under this TA supports activities aimed at slowing down or halting the retreat of CBRs due to weak compliance capacity.⁴
6. The APG delivered 11 virtual training courses on AML/CFT supervision to its Pacific members in 2021-2023. The courses have focused building AML/CFT supervisory capacity, particularly in relation to the banking and remittance sectors and offshore entities.⁵
7. AUSTRAC and the Cook Islands FIU support the Pacific Financial Intelligence Community (PFIC), which comprises regulators and FIUs of 15 PI countries.⁶ The purpose of this regional forum is to identify, develop and operationalise strategies to combat regional money laundering/terrorism financing matters⁷. It encourages multilateral and bilateral collaboration across the region through regular dialogue and engagement between members. It also provides a forum for Pacific wide engagement at other international fora and with other external parties.

¹ Advice from IMF Department of Capital Markets May 2023.

² Advice from IMF Department of Capital Markets May 2023.

³ Advice from IMF Department of Capital Markets May 2023.

⁴ Advice from ADB May 2023.

⁵ Advice from APG June 2023.

⁶ Advice from AUSTRAC June 2023.

⁷ Advice from DFAT, July 2023

AUSTRAC

AUSTRAC continues to provide a large and diverse program of capacity building to financial intelligence units and AML regulators in the region. The program seeks to harden the Pacific's regional financial sector against money laundering, terrorism financing and to strengthen regional governments' capacity to mitigate this risk and in turn support an enduring correspondent banking presence in the Pacific. Further initiatives will involve the delivery of theoretical training both virtually and in person, as well as experiential training through exchange programs and mentoring across regulatory and intelligence streams. Current and planned activities (which will be offered to all FIUs and regulators) include:⁸

- a series of virtual webinars (including an online course) in relation to virtual assets. Topics including ransomware (and the role of FIUs play in relation to ransomware payments), legislative approaches/international context for virtual assets and introductory blockchain analysis are to be covered
- a series of Regulatory Exchange Programs (REPs) with Pacific counterpart FIUs/supervisors. Under the REP, participating regulatory and compliance officers will undertake an exchange to the counterpart agencies' offices for a defined period of up to two weeks each. During these exchange periods, the officers will work together on sharing knowledge on AML/CTF issues of mutual priority such as risk-based supervision of financial institutions and casino sectors, legislation and regulation of virtual assets, and industry outreach/education opportunities
- virtual workshops and training on key AML/CTF topics. Topics for these sessions will cover emerging and evolving topics of interest such as virtual assets, de-risking/de-banking and enforcement action/activities
- virtual webinars (including an online course) in relation to virtual assets. Topics including ransomware (and the role of FIUs play in relation to ransomware payments), legislative approaches/international context for virtual assets and introductory blockchain analysis are included as part of the series.
- two virtual Pacific Intelligence Fundamentals Courses (PIFC). The PIFC will allow participants to develop an understanding of foundational intelligence processes including the intelligence cycle and several structured analytic techniques.
- two face-to-face Pacific Financial Intelligence Analyst Courses (PFIACs) where participants will develop financial intelligence specialist skills. The PFIAC modules cover the principles of collecting and analysing financial data to describe, explain and predict financial behaviour. These sessions build on participants' knowledge of financial intelligence and increase their ability to understand foundational indicators of serious and organised crime, money laundering and terrorism indicators, patterns and risks
- AUSTRAC will hold the next Pacific Financial Intelligence Community (PFIC) plenary in November 2023. The key working groups of PFIC - Research, Joint operations and capacity building – are driving current lines of work
- AUSTRAC has rolled out its TAIPAN system to a number of PI Forum countries, including Fiji, Tonga, Solomon Islands, Nauru and Cook Islands. TAIPAN creates a common software platform and data analytical capability across the Pacific region. It supports Pacific FIUs in their ability to securely store and analyse financial transaction data and to create financial intelligence for use by law enforcement, tax authorities and anti-corruption authorities.

⁸ Advice from AUSTRAC Jun 2023.

- From July 2023, AUSTRAC will commence phase 2 of the TAIPAN project and roll out the TAIPAN systems to further Pacific FIUs – Palau, Samoa, Republic of Marshall Islands, Kiribati, Tuvalu, Vanuatu and Papua New Guinea⁹.
- From early 2024, AUSTRAC will base a Liaison Officer in Suva, Fiji. The Pacific Liaison Officer will drive operational financial intelligence collaboration across the region and assist the Pacific Programs team in the delivery of AUSTRAC’s Pacific capacity building programs covering financial intelligence and AML/CTF regulation (with support from other AUSTRAC SMEs). The role will have a regional span of responsibility.

PIRI (Pacific Islands Regional Initiative) Action Plan

PIRI, a working group of the Alliance for Financial Inclusion, was created in 2014 and officially launched in 2015 in Dili, Timor-Leste, with the vision of making financial services accessible to all Pacific Islanders. The initiative invites member institutions to share in a common vision while working toward ensuring that financial services are widely accessed throughout the region (PIRI 2023). Current members are Banco Central Timor Leste; Bank of Papua New Guinea; Central Bank of Samoa; Central Bank of Seychelles; Central Bank of Solomon Islands; National Reserve Bank of Tonga; Reserve Bank of Fiji; and Reserve Bank of Vanuatu.

PIRI has five objectives (PIRI 2023):

- remove policy barriers to improve access;
- use technology for financial service provision and access;
- empower and protect through financial literacy and education;
- collaborate with stakeholders to advance financial inclusion in the region; and
- use data for smart policymaking and monitoring.

PIRI adopted a Pacific Islands Regional De-Risking Action Plan in May 2019. It was developed further in 2020 and 2021 with diagnostic reports on some PIRI members and a coordination strategy. The action plan includes the following (PIRI 2021b):

- 1 Inter-regulator and stakeholder coordination**
 - Establish a coordination mechanism to drive the implementation of the action plan and its national-level iterations.
 - Strengthen engagement and coordination among key stakeholders, including through enhanced engagement with Australia, New Zealand and the United States banks, regulators and anti-money laundering and countering the financing of terrorism (AML/CFT) supervisors.
- 2 Diagnostics and monitoring frameworks to track implementation progress**
 - Promote effective data collection and analysis, including diagnostic studies to accurately inform the development of a coordinated regional and national response to address de-risking and to track implementation progress.
 - Facilitate a data- and information-sharing mechanism between key stakeholders.
- 3 Compliance with AML/CFT standards and risk assessment**

⁹ Advice from AUSTRAC and DFAT

- Enhance national capacity building to improve AML/ CFT compliance and supervision.
- Strengthen risk-based AML/ CFT in the Pacific region.
- 4 Technology-based solutions**
 - Explore the use of financial technology (FinTech) and regulatory technology (RegTech) solutions as well as innovative regulatory approaches, such as innovation hubs, national sandboxes and the PIRI Regional Regulatory Sandbox.
 - Enable initiatives that leverage the deployment of technology-based solutions.

2 Cook Islands

2.1 Improving ML/FT/PF risk management

Capacity building of supervisory authorities

The Cook Islands has received Technical Assistance from the IMF, with the most recent Technical Assistance Report dated August 2020. Cook Islands has also participated in AUSTRAC's TAIPAN project, and hence benefits from the software platform and its data analytical capability, which securely stores and analyses financial transaction data to create financial intelligence purposes.¹⁰ Cook Islands is also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs).

Cook Island's Financial Supervisory Commission (FSC) is an independent body, responsible for supervision of the financial sector. Its supervisory framework includes all of the key elements of a risk-based supervision model. The FSC has a close working relationship with the Reserve Bank of NZ (RBNZ) and has MOUs with the RBNZ, the Australian Prudential Regulation Authority and the Bank of PNG (IMF Aug 2020).

On this basis, Cook Islands capacity of supervisory authorities is assessed as good for the purpose of this report.

3 Fiji

3.1 Improving ML/FT/PF risk management

Collecting data on CBR closures

As a member of PIRI, Fiji is investigating how best to improve data collection, as per the PIRI Regional De-risking Action Plan (PIRI 2021).

Capacity building of supervisory authorities and Capacity building of local banks and MTOs

Fiji has taken advantage of capacity building offered by the ADB, the IMF and AUSTRAC: one example is a workshop on anti-money laundering efforts that was held in Nandi in 2019 (Becker 2023b, ADB Jun 2019). More recently it participated in the Pacific Remittances Project (part of the

¹⁰ Advice from AUSTRAC June 2023.

work program being undertaken by South Pacific Governors Meeting (SPGM) countries¹¹). This examined the changes needed to guidance, legislation and policy in order to improve AML/CFT compliance culture, upskill remitters and stem de-risking (RBNZ Feb 2022).

Fiji participated in AUSTRAC's TAIPAN project, which provides Pacific FIUs with a software platform and data analytical capability that securely stores and analyses financial transaction data to create financial intelligence for use by law enforcement, tax authorities and anti-corruption authorities.¹² It is also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs).

In its 2021 report on Article IV discussions with Fiji, IMF staff expressed the view that Fiji's banking sector is operating in compliance with the AML/CFT requirements of the Financial Transaction Reporting Act. There are strong licensing requirements for the banking sector, and most banks in Fiji have good track records on AML/CFT compliance (IMF Dec 2021). Accordingly, Fiji's capacity of supervisory authorities and of banks and MTOs is assessed as good for the purpose of this report.

National eKYC utility

Fiji participated in the regional KYC workstream being undertaken by SPGM countries in the Pacific Remittances Project. In support of this work, PFIP arranged for diagnostics to be conducted on Inclusive Digital ID platforms in Fiji, Solomon Islands and Vanuatu (UNCDF 2020). Although the Central Bank participants did not wish to proceed with a regional eKYC utility, development of a national eKYC facility is continuing (RBNZ Feb 2022).

3.2 Improving the enabling environment for CBR services

Trailing appropriate products – eg mobile money/online services

Fiji was the first of the Pacific Island countries to work with mobile network operators to facilitate the development of mobile money. The Reserve Bank of Fiji and the Bank's Financial Intelligence Unit (FIU) worked to provide an enabling environment for mobile money services, to ensure that services protected consumer rights and that IT systems were secure.

In 2011, the Reserve Bank approved the extension of mobile money services to include inward international remittances. This followed a period of consultation with Vodaphone and Digicel, ensuring that requirements on AML were met, including the identification and verification of customers (Reserve Bank of Fiji 2019). The second phase of the Vodaphone Innovation Lab aims at expanding into other countries and developing products that ease the flow of remittances. To this end, Vodaphone has supported investments by companies within the Amalgamated Telecom Holdings family. Although there have been delays in connecting other countries to the Fiji-based IMT hub, discussions with a number of International Money Transfer partners have been finalised (UNCDF 2020).

¹¹ SPGM countries comprise Fiji, PNG, Samoa, Solomon Islands, Tonga, Timor-Leste and, Vanuatu, Australia and New Zealand.

¹² Advice from AUSTRAC June 2023.

Mobile payments have grown significantly over the last decade, and have further accelerated during the covid pandemic. Capal estimates that 30% of remittances into Fiji are received into mobile wallets (Capal 2022).

Upgrading national payments system framework and technology

The process of upgrading the national payments system has begun with the passing of a new National Payments System Act in Feb 2021. The law is intended to support the development of digital payment services, mitigate risks to the financial sector, ensure customer protection and improve financial inclusion (PIRI 2022).

Fiji is a participant of the Pacific Payments Project (which is supported by the International Finance Corporation and the World Bank). The project is aimed at upgrading the payments system to receive payments digitally. The automated transfer system will allow real time gross settlement and allow retail payments to be made electronically (World Bank Mar 2019, IMF Apr 2023).

The IMF has also undertaken a capacity development program with Fiji on the development of a supervisory and oversight framework Fiji's payments system and its participants.¹³

Increasing the usage of bank accounts and payment services

As part of implementing the PIRI Regional De-risking Action Plan, Fiji has implemented financial inclusion policies.

Gov or regional clearing agents

A second part of the Pacific Payments Project will create an automated clearing house for retail payments. The system will be available for use by mobile money providers, as well as for retail payments by individuals, companies and the government (World Bank Mar 2019).

4 French Polynesia

4.1 Improving ML/FT/PF risk management

Capacity building of supervisory authorities

France has taken steps to improve the implementation of AML/CFT measures in its overseas territories through awareness raising events for financial supervisors, secondment of advisors and on-site visits of financial institutions (IMF Oct 2019).

¹³ Advice from the Money and Capital Markets Department of the IMF.

5 Kiribati

5.1 Improving ML/FT/PF risk management

Improved collection of statistics

Kiribati authorities plan to implement the IMF's Enhanced General Data Dissemination System by publishing economic data, to help improve the availability of statistics. However, the Article IV Mission completed by the IMF in 2023 noted that the improvement of the quality, timeliness and coverage of statistics – including financial sector data – should be a high priority (IMF Feb 2023).

Capacity building of supervisory authorities

Kiribati is in the process of establishing an independent financial supervisor, with the passing of the Financial Supervisory Authority of Kiribati Act (2021) and the Financial Institutions Act (2021). The 2023 Article IV Mission recognised these as important milestones, but the next step – to establish an independent supervisor of financial institutions with adequate resources – is yet to be taken (IMF Feb 2023).

Kiribati is also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs). It will be participating in the second stage of rolling out AUSTRAC's TAIPAN system, which provides a platform for data storage and analysis.¹⁴

6 Nauru

6.1 Improving ML/FT/PF risk management

Efforts to improve the effectiveness of Nauru's AML/CFT framework are continuing through a number of solution initiatives, including through technical assistance from the IMF (IMF Feb 2022).

Improved collection of statistics

Progress in compiling macroeconomic statistics remains a priority (IMF Feb 2022).

Capacity building of supervisory authorities

While legacy reputational issues from Nauru's past offshore centre have been resolved, existing shortcomings in the AML/CFT framework are still seen as significant (IMF Feb 2022). The Government has recently put in place new AML/CFT legislation to improve technical compliance, with Technical Assistance from the Asia Pacific Group (APG).

Technical assistance from AUSTRAC is aimed at increasing the resources and capability of the financial intelligence unit. For example, Nauru participated in the first stage of AUSTRAC's TAIPAN project, and hence benefits from the software platform and its data analytical capability, which securely stores and analyses financial transaction data to create financial intelligence purposes.¹⁵ It is

¹⁴ Advice from AUSTRAC June 2023.

¹⁵ Advice from AUSTRAC June 2023.

also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs).

National risk assessments

Authorities in Nauru are developing a national risk assessment and a national strategy (IMF Feb 2022).

7 New Caledonia

No information available from published reports.

8 Niue

No information available from published reports. AUSTRAC reports that it is working with Niue on strengthening its AML/CFT capacity.¹⁶ Niue is also participating in meetings of the Pacific Financial Intelligence Community (PFIC).

9 Papua New Guinea

9.1 Improving ML/FT/PF risk management

Collecting data on CBR closures

As a member of PIRI, PNG is investigating how best to improve data collection, as per the PIRI Regional De-risking Action Plan (PIRI 2021).

National risk assessments

As part of work to strengthen the AML/CFT framework, the Financial Analysis and Supervision Unit has conducted sectoral risk assessments (IMF Sep 2022).

Capacity building of national agencies and bodies

The ADB provided technical assistance to PNG on a range of AML/CFT initiatives, including preparing laws and regulations related to anti-money laundering (AML) and counter-financing of terrorism (CFT): (i) the Anti-Money Laundering and Counter-Terrorist Financing Act, 2015; (ii) amendments to the Proceeds of Crime Act, 2005; (iii) amendments to the Criminal Code Act, 1974; (iv) the United Nations Financial Sanctions Act, 2015; and (v) the Cash Courier Draft Bill.¹⁷

PNG will be involved in the second stage of rolling out the TAIPAN software system, which supports data collection, storage and analysis by the FIU.¹⁸ It is also a member of the Pacific Financial

¹⁶ Advice from AUSTRAC June 2023.

¹⁷ Advice from ADB May 2023.

¹⁸ Advice from AUSTRAC June 2023.

Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs), and its FIU is currently the co-chair of the PFIC, with Australia.

Capacity building of local banks and MTOs

The Financial Analysis and Supervision Unit is working on changes to the AML/CFT legal framework. It has also provided training to supervised entities. Nonetheless, the IMF considers that a sustained, multi-year effort on AML/CFT activities, with close external support, is needed in the light of significant governance challenges (IMF Sep 2022).

Promotion of risk-based assessments/guidance to correspondent banks

In PNG, a recent mission working with supervisory bodies on developing and finalizing prudential and risk management regulations covered CBR issues.

Improved CDD/KYC

With the assistance of the ADB, PNG developed arrangements for conducting risk-based know-your-customer (KYC) checks, reviewing AML/CFT requirements, and accepting electronic KYC (eKYC) in customer due diligence standards.¹⁹

National eKYC utility

PNG was one of the nine jurisdictions that participated in the regional KYC workstream (undertaken by SPMG countries as part of the Pacific Remittances Project)²⁰. PNG is also undertaking preliminary investigation of the possibility of developing a national eKYC facility (RBNZ June 2022).

9.2 Improving the enabling environment for CBR services

Implementing national digital identity scheme

PNG has explored the development of a low-cost biometric identity system, using blockchain technology and SMS-capable phones, through IDBox. However, scalability concerns led PNG to look at an enhanced digital identity solution using Near Field Communication technology to capture and store identity data (Davidovic et al 2019).

In the 3 months to February 2023, a pilot was undertaken on a biometric capture identification scheme designed for rural PNG and the informal sector. ADB, the Bank of PNG, and two financial institutions, MiBank and Mama Bank, launched the Digital Access Tool pilot for banking activities in PNG. The solution was introduced to the participating banks' customers in Wewak and Maprik, East Sepik Region. The project's overall objective is to create a viable, innovative, and secure verification solution, providing individuals with a means of identification through biometric capture.²¹

Trailing appropriate products

PFIP helped to support the creation of MamaBank Access Points (MAPs), which have provided women in rural areas easier access to formal banking services (UNCDF 2020).

¹⁹ Advice from ADB May 2023.

²⁰ Advice from DFAT July 2023.

²¹ Advice from ADB May 2023.

Upgrading national payments system framework and technology

PNG has invested in upgrading its national payments system, and now has one of the most sophisticated systems in the Pacific. It comprises KINA (a real-time gross settlement system) and the PNG National Switch system for card payment and mobile payments (IMF Apr 2023).

Increasing the usage of bank accounts and payment services

As part of implementing the PIRI Regional De-risking Action Plan, PNG has committed to financial inclusion policies. Building on the MAPs project, the Women's Micro Bank Ltd has increased its active customer base very significantly. PFIP's support to the Women's Micro Bank has also helped to unlock other funding to improve women's access to finance (UNCDF 2020).

Gov or regional clearing agents

The Pacific Payments Project has a second part which will create an automated clearing house for retail payments. The system will be available for use by mobile money providers, as well as for retail payments by individuals, companies and the government (World Bank Mar 2019).

10 Samoa

10.1 Improving ML/FT/PF risk management

Collecting data on CBR closures

Samoa is investigating how best to improve data collection, as per the PIRI Regional De-risking Action Plan (PIRI 2021).

Capacity building of supervisory authorities and Capacity building of local banks and MTOs

The IMF's Money and Capital Markets Department (MCM) provided technical assistance to Samoa in 2017. This included recommendations regarding data collection, risk management, AML/CFT aspects and de-risking.²² Samoa will be participating in the second stage of AUSTRAC's TAIPAN project, which supports FIU's financial intelligence gathering. It is also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs).

Samoa authorities are working to approve a regulatory framework for money lenders, credit unions and microfinance institutions, as well as making amendments to insurance laws. The IMF is providing technical assistance on these and other measures to strengthen risk management and provide training to Samoa authorities (IMF Mar 2023, Alwazir et al 2019).

Although the IMF cannot provide training directly to private sector institutions, Samoa authorities have in the past been active in providing training to the staff of MTOs and other financial institutions (Alwazir et al 2019, Boulton and Winton 2018).

²² Advice from the Money and Capital Markets Department of the IMF.

National risk assessments

Samoa was supported by the ADB in developing its national risk assessment and formulating a national AML/CFT strategy.²³

Samoa authorities are currently conducting an updated AML/CFT risk assessment and elaborating a national AML/CFT strategy (IMF Mar 2023a).

Improved CDD/KYC and National eKYC utility

With assistance from the ADB, a national electronic KYC utility is being developed (IMF Mar 2023a).

The project aimed to develop and implement a standardised ID template and utility for MTO customer identification, that can be implemented in other countries regionally. MTOs and other financial institutions will be able to ascertain the customers' identity electronically through mobile and web-based applications. The template is consistent with Australian and NZ AML/CFT reporting requirements and was intended to enhance customer due diligence and the capacity of institutions to monitor and detect suspicious transactions, and lower compliance and transaction costs (Alwazir et al 2019, Davidovic et al 2019). The pilot program has successfully integrated the platform with the Office of Electoral Commission (OEC) database using an application programming interface (API). It was confirmed with the OEC and accepted that the eKYC platform did not extract any data from the electoral database other than obtain a 'yes' or 'no' response using the API for matches against information provided by participating financial institution customers. Integration with a commercial bank system is underway, while the pilot using a web interface is being used by a money transfer operator to meet compliance requirements. Once completed, and if successful, the platform will be available for use by other Pacific countries.²⁴

Samoa was also a participant in the SPGM Pacific Remittances Project (RBNZ June 2022).

10.2 Improving the enabling environment for CBR services

Trailing appropriate products – eg mobile money/online services

Samoa has been active in fostering mobile money services, with over 50% of its adult population having access to mobile wallets (Capal 2022). Ezibank is a mobile banking product that was launched by the National Bank of Samoa (NBS) in collaboration with Digicel Samoa. It allows customers to transfer funds from the NBS bank account to their money wallet and vice versa, receive remittances and view their account balances (UNCDF 2020).

Implementing national digital identity scheme

A national digital ID project is a central part of Samoa's national financial inclusion strategy, which the IMF reported as being nearly finalised (IMF Mar 2023a).

Upgrading national payments system framework and technology

Work began in 2019 to upgrade the payments system to receive payments digitally, under the Pacific Payments Project (which is supported by the International Finance Corporation and the World Bank).

²³ Advice from ADB.

²⁴ Advice from ADB.

The automated transfer system was intended to allow real time gross settlement and allow retail payments to be made electronically (World Bank Mar 2019).

G20 safe remittance corridor risk assessment pilot

Samoa is currently exploring the possibility of joining the safe remittance corridor risk assessment pilot supported by the IMF and World Bank, with initial discussions being held with the IMF.²⁵

Increasing the usage of bank accounts and payment services

As part of implementing the PIRI Regional De-risking Action Plan, Samoa has committed to financial inclusion policies (PIRI 2021).

Gov or regional clearing agents

From 2016 the Central Bank of Samoa used bank accounts with commercial banks in major remittance-sending countries as clearing facilities. These balance payments between money sending businesses in different countries, without converting to local currency. The intention of the accounts was to decrease costs, improve the stability of remittance arrangements and increase the government's access to foreign reserves. However, the effectiveness of this approach was diminished because several of the MTOs involved had their accounts terminated by the commercial banks (Hopper 2016).

Samoa also investigated the possibility of using Crown Agent Bank to provide CBR services for US, Australian and New Zealand currencies to local banks and MTOs. However, the establishment costs and ongoing compliance costs proved too expensive to be commercially viable.²⁶

The Pacific Payments Project had a second part which was to create an automated clearing house for retail payments. The system was to be available for use by e-wallet providers, as well as for retail payments by individuals, companies and the government (World Bank Mar 2019).

11 Solomon Islands

11.1 Improving ML/FT/PF risk management

Collecting data on CBR closures

As a member of PIRI, Samoa is investigating how best to improve its collection of CBR data, as per the PIRI Regional De-risking Action Plan (PIRI 2021).

Capacity building of supervisory authorities and Capacity building of local banks and MTOs

The IMF's 2021 Article IV consultation identified a need to improve risk-based supervisory capacity. Recommended actions included the clarification of AML/CFT supervisory roles and responsibilities among the agencies, and the development of supervisory tools to support a risk-based approach – with capacity development assistance being offered by the fund (IMF Jan 2022).

²⁵ Advice from Samoan FIU June 2023.

²⁶ Advice from Samoan FIU June 2023.

Solomon Islands participated in the first stage of AUSTRAC's TAIPAN project, and hence benefits from the software platform and its data analytical capability.²⁷

Improved CDD/KYC and National eKYC utility

Following the conclusion of the SPGM Pacific Remittances Project, the Central Bank of Solomon Islands is doing some preliminary investigation of the development of a national eKYC facility (RBNZ June 2022). In support of this work, PFIP arranged for diagnostics to be conducted on Inclusive Digital ID platforms in Fiji, Solomon Islands and Vanuatu (UNCDF 2020).

11.2 Improving the enabling environment for CBR services

Trailing appropriate products – eg mobile money/online services

The National Provident Fund implemented a saving scheme that advanced digital inclusion for informal workers, youSave LoMobile. The IMF welcomed this scheme in its most recent Article IV consultation, and recommended that the government ensure that the regulatory framework and legislation is in place to enable the use of new technologies and digital services (IMF Jan 2022).

Upgrading national payments system framework and technology

Solomon Islands is a participant in the Pacific Payments Project, run by the International Finance Corporation and the World Bank, aimed at updating and automating the national payments system (World Bank Mar 2019, IMF Jan 2022).

The Central Bank of Solomon Islands launched an initiative to create an interoperable shared agency banking network (one liquidity and one agency interface), to be utilised by multiple finance service providers. The project has progressed into a preparatory stage (UNCDF 2020).

Increasing the usage of bank accounts and payment services

As part of implementing the PIRI Regional De-risking Action Plan, the Solomon Islands have implemented financial inclusion policies.

Gov or regional clearing agents

As a participant in the Pacific Payments Project, the Solomon Islands will also gain an automated clearing house for retail payments. As described above, the system may be used for retail payments by individuals, companies and the government, and may also be made available to e-wallet providers (World Bank Mar 2019).

²⁷ Advice from AUSTRAC June 2023.

12 Tonga

12.1 Improving ML/FT/PF risk management

Collecting data on CBR closures

As a member of PIRI, Tonga is investigating how best to improve its collection of CBR data, as per the PIRI Regional De-risking Action Plan (PIRI 2021).

Improved collection of statistics

The IMF has provided extensive capacity development support to Tonga in relation to the collection and publication of statistics, including through missions led by the Pacific Financial Technical Assistance Centre. The 2022 IMF's Schedule IV report recommended that Tonga continue to make progress in disseminating more and better statistics in a timely manner, including macroeconomic and financial data (IMF Aug 2022).

Capacity building of supervisory authorities and improved regional dialogues/information sharing

Tonga has recently established the Financial Analysis and Supervision Coordinating Unit, which will strengthen AML/CFT supervisors. The IMF has welcomed enhanced collaboration between Tonga's Financial Intelligence Unit and regional AML/CFT supervisors and FIUs, aimed at information sharing and enhancing Tonga's FIU analytical capacity (IMF Aug 2022).

Tonga participated in the first stage of AUSTRAC's TAIPAN project, and hence benefits from the software platform and its data analytical capability.²⁸ It is also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs).

Capacity building of local banks, MTOs and NPOs

Tonga authorities are augmenting their efforts to strengthen the AML/CFT framework, and are planning to conduct onsite visits to review banks compliance with AML/CFT regulations, including KYC requirements (IMF Aug 2022). Capal noted the need for systemised education of remittance senders, and the fact that regional MTOs can provide support and build trust (Capal 2022).

Improved CDD/KYC and National eKYC utility

The National Reserve Bank of Tonga is in the process of setting up a national KYC system (IMF Aug 2022). Tonga was also a participant of the Pacific Remittance Project being undertaken by SPGM countries, and with the completion of that project has committed to the further development of a national eKYC utility (NZRB 2022).

²⁸ Advice from AUSTRAC June 2023.

Improving the enabling environment for CBR services

Trailing appropriate products – eg mobile money/online services

Tonga has successfully established mobile money services, with access provided to mobile wallets for around half the adult population (Capal 2022).

In collaboration with the IFC, and supported by World Bank, the Tonga Development Bank established an online remittance facility for use in the New Zealand-Tonga corridor, called the 'Ave Pa'anga Pau voucher. The Tonga Development Bank receives the funds via electronic payments made in New Zealand and then disburses them to bank accounts in Tonga (IFC Nov 2020, Capal 2022, IMF Mar 2023). The product is low cost and AML/CFT compliant, and intended to reduce remittance costs in the Tongan market. The pilots have been successful and expansion to other Pacific Islands is being considered.

Upgrading national payments system framework and technology

In a collaboration with KlickEx, the National Reserve Bank of Tonga has been upgrading the national payments system, under its Domestic Electronic Payment System (DEPS) project. The new system is used by commercial banks for local payments, inter-bank settlements and foreign exchange (PIRI 2022, IMF Aug 2022). It also provides a central securities depository for government bond trading (IMF Apr 2023).

Increasing the usage of bank accounts and payment services

As part of implementing the PIRI Regional De-risking Action Plan, Tonga has implemented financial inclusion policies.

Gov or regional clearing agents

As a participant in the Pacific Payments Project, the Tongan authorities will also gain an automated clearing house for retail payments (World Bank Mar 2019).

13 Tuvalu

13.1 Improving ML/FT/PF risk management

Capacity building of supervisory authorities

Tuvalu authorities are planning to establish a domestic Financial Intelligence Unit, building on the experience of other countries in the region (IMF Aug 2021). The APG provided technical assistance in 2021-2022, including the development of a national AML/CFT policy and action plan. AUSTRAC is also including Tuvalu in the second stage of its rollout of the TAIPAN software system for FIUs.²⁹ It is also a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs).

²⁹ Advice from AUSTRAC June 2023.

While Tuvalu authorities have noted the need to improve banking supervision, however, they note the difficulty of hiring suitably qualified personnel. They intend to collaborate with the Pacific Financial Technical Assistance Centre to build capacity in the financial supervision unit within Tuvalu's Public Enterprise Reporting and Monitoring Unit (IMF Aug 2021).

13.2 Improving the enabling environment for CBR services

Trailing appropriate products – eg mobile money/online services

The Development Bank of Tuvalu undertook a three-stage digitalisation plan, which was due to be completed by end 2022, aimed at enabling online money transfers for customers (IMF Aug 2021).

Likewise, the National Bank of Tuvalu is exploring options to upgrade its system, to provide online banking services and offer ATM, debit and credit card services (IMF Aug 2021).

Implementing national digital identity scheme

Tuvalu is considering using fintech expertise to develop a secure and easy-to-access digital national identity system. A feasibility study was undertaken to understand different platform options, including Bitcoin SV (IMF Aug 2021).

14 Vanuatu

14.1 Improving ML/FT/PF risk management

Collecting data on CBR closures

As a member of PIRI, Vanuatu is investigating how best to improve its collection of CBR data, as per the PIRI Regional De-risking Action Plan (PIRI 2021).

Capacity building of supervisory authorities

Vanuatu is a member of the Pacific Financial Intelligence Community (PFIC) for Pacific Financial Intelligence Units (FIUs) and is participating in the TAIPAN project.

Improved CDD/KYC and National eKYC utility

With the support of the ADB, Vanuatu is piloting an eKYC utility.³⁰

Vanuatu was a participant in the SPGM countries Pacific Remittances Project, and continues its development of a national eKYC facility (RBNZ June 2022). In support of this work, PFIP arranged for diagnostics to be conducted on Inclusive Digital ID platforms in Fiji, Solomon Islands and Vanuatu (UNCDF 2020).

National risk assessments

Vanuatu received assistance from the ADB to prepare its national risk assessment, with follow-on assistance provided on risk assessments for terrorist financing and offshore financial centres.³¹

³⁰ Advice from ADB May 2023.

³¹ Advice from ADB May 2023.

14.2 Improving the enabling environment for CBR services

Considering the role of CBDC

There is interest in CBCDs and blockchain technology in Vanuatu, and some legal reforms have been undertaken recently to enable the holding of crypto assets and allow digital trading on the offshore centre. However, the IMF noted that there are no immediate plans to adopt a CBCD in Vanuatu, and that the country lacks the technical capacity and infrastructure to test and adopt one (IMF Mar 2023).

Trailing appropriate products – eg mobile money/online services

During the pandemic there was an increase in mobile money, however in its 2023 Schedule IV consultation, the IMF noted that Vanuatu is still in the early stages of developing digital payment methods (IMF Mar 2023).

A mobile money platform, M-Vatu mobile money, was launched in October 2019, aiming to reach rural and female clients. However as of mid-2020, take-up and usage had been hampered by cyclone damage and a shift in Vodaphone's priorities (UNCDF 2020). There are also plans to introduce an online remittance voucher system for Vanuatu, similar to Tonga's 'Ave Pa'anga Pau voucher (Becker 2023b).

Implementing national digital identity scheme

The Pacific Digital Economy Programme conducted a study for Vanuatu which examined the current identity landscape, regulatory environment and customer readiness for a digital identity utility. The study concluded that Vanuatu would benefit from such a utility and made some recommendations on design (Pacific Digital Economy Programme 2021).

Currently Vanuatu, with support from ADB, is examining the KYC policy and legal and regulatory framework to determine to what extent the current framework supports an eKYC utility and to provide recommendations for improvements or essential changes to the legal and regulatory framework.³²

Upgrading national payments system framework and technology

Vanuatu is part of the Pacific Payments Project being implemented by the IFC and World Bank, which aims to enable electronic payment transfers in Vanuatu (and Samoa and Solomon Islands), bringing it into line with other Pacific Island countries (World Bank Mar 2019). The IMF reported that the upgrade to the digital national payments system is expected to be completed by mid 2023 (IMF Mar 2023).

Increasing the usage of bank accounts and payment services

As part of implementing the PIRI Regional De-risking Action Plan, Vanuatu has implemented financial inclusion policies.

³² Advice from ADB.

Regional remittance schemes/intermediaries

The IMF reported that Vanuatu is now using a new intermediary for some of its USD CBR business, Choice Mauritius. Choice Mauritius operates alongside the existing CBR for USD, Western Union (IMF Mar 2023).

Gov or regional clearing agents

As a participant in the Pacific Payments Project, Vanuatu will also gain an automated clearing house for retail payments (World Bank Mar 2019)

15 Stocktake summary

Table 1 provides a summary of the stocktake of initiatives undertaken to date by Pacific Island Forum members.

Table 1: Stocktake of initiatives by country

Classification	Initiative	Lead Responsibility	Cook Isl	Fiji	French Polyn	Kiribati	Nauru	New Cal	Niue	PNG	Samoa	Sol Isls	Tonga	Tuvalu	Vanuatu
a) Improving ML/FT/PF risk management															
Better data	Collecting data on CBR closures	PI Central banks/Global inst/Aus/NZ		T						T	T	T	T		T
	Improved collection of statistics	Government authorities/Aus/NZ				T	T						I		
	Improved regional dialogues/information sharing	PI regulators											I		
Better regulation	Enabling eKYC implementation to support remote onboarding	PI Regulators/ Australia/NZ	P	P		P	P		P	P	P	P	P	P	P
Better AML/CFT/CPF capacity	Capacity building of national agencies and bodies	Global insts with supervisors/ Australia/NZ	I	I	I	I	I		I	I	I	I	I	I	I
	National risk assessments	PI governments/ Australia/NZ	I	I		I	I		I	I	I	I	I	I	I
	Capacity building of local banks, MTOs and NPOs	Supervisory bodies/ Governments	I	I		I	I		I	I	I	I	T	I	I
	Promotion of risk-based assessments/ guidance to correspondent banks	Supervisors/ Global Inst/ Australia/NZ								I					
	Improved CDD/KYC	Banks/ supervisory bodies								I	I		T		

	National eKYC utility	PI governments		T						P	T	P	T		T
	Pacific Financial Intelligence Community (PFIC) member	PI governments (FIUs)	I	I		I	I		I	I	I	I	I	I	I
	G20 safe corridor remittance risk assessment pilot	PI governments/ regulators/IMF/ World Bank									P				
b) Improving the enabling environment for CBR services			Cook Isl	Fiji	French Polyn	Kiribati	Nauru	New Caledon	Niue	PNG	Samoa	Sol Isls	Tonga	Tuvalu	Vanuatu
Digital financial services (DFS)	Adopting appropriate DFS regulation and strategies	PI regulators/ Australia/NZ	P	P		P	P		P	P	P	P	P	P	P
	Considering the role of CBDCs	PI governments/ Australia/NZ	P	P		P	P		P	P	P	P	P	P	P
	Trailing appropriate products— eg mobile money/online services	PI regulators/ providers		I						T	I	T	I	T	
Improving national infrastructure	National digital identity scheme	PI governments								T	I			P	
	Upgrading national payments system framework and technology	PI governments		I						I	I	I	I	T	T
	Increasing the usage of bank accounts and payment services	PI governments		I						I	I	I	I		I
Regional/ shared solutions	Regional eKYC recognition scheme	PI governments/ Australia/NZ		N						N	N	N	N		N
	Regional remittance schemes/intermediaries	PI governments/ Australia/NZ/ Remitters													T

	Gov or regional clearing agents	PI governments/ Australia/NZ		I						I	I	I	I		I
c) Countering the effects of complete de-banking			Cook Isl	Fiji	French Polyn	Kiribati	Nauru	New Caledon	Niue	PNG	Samoa	Sol Isls	Tonga	Tuvalu	Vanuatu
d) Ideas not yet being actively explored in the Pacific			Cook Isl	Fiji	French Polyn	Kiribati	Nauru	New Caledon	Niue	PNG	Samoa	Sol Isls	Tonga	Tuvalu	Vanuatu
a) Improving ML/FT/PF risk management															
Better data	Provision of more Pacific ML/FT/PF risk data to inform risk assessments by int’nal banks	APG/Global institutions/ AUSTRAC/NZFIU													
	Improving public-private risk information sharing	Private sector/PI FIUs/law enforcement/ AUSTRAC/NZFIU													
Better regulation	Considering correspondent banking safe harbour provisions for lower risk jurisdictions	PI regulators/ Australia/ NZ													
Better AML/CFT/CPF capacity	Improved understanding of risk decisions by banks	PI supervisory bodies/Australia/ NZ													
	Legal Entity Identifiers	Banks													
	Compliance codes of conduct for MTOs, NPOs	Industry bodies													

b) Improving the enabling environment for CBR services														
Improving national infrastructure	Plan for implementing ISO 20022 messages for SWIFT cross-border payments and cash management messages	Banks												
	Recognising a legal right to a basic bank account and a legal right for payment service providers to access the payment system (e.g. as per EU PSD2)	PI governments/ Australia/NZ			*			*						
Subsidies	Subsidized correspondent bank compliance costs	PI governments /Australia/NZ												
Regional /shared solutions	Harmonising regulations and practices to support intra-Pacific payments	PI governments/ Australia/NZ												
c) Countering the effects of complete de-banking														
	Contingency plans for extreme de-banking	PI governments/ Banks/Australia/ NZ												

Notes to table:

- * In place in France - <https://www.elibrary.imf.org/view/journals/002/2019/326/article-A001-en.xml>
However there is no information on whether it also applies in its Pacific territories.

Key:

	c) a) Improving ML/FT/PF risk management			d) b) Improving the commercial viability of CBR services			e) Countering the effects of de-banking
I	Has been or being implemented		I	Has been or being implemented		I	Has been or being implemented
G	Assessed as good		G	Assessed as good		G	Assessed as good
T	Being trialled or piloted, or preparations underway		T	Being trialled or piloted, or preparations underway		T	Being trialled or piloted, or preparations underway
P	Being investigated as a possibility		P	Being investigated as a possibility		P	Being investigated as a possibility
N	Investigated but not being pursued		N	Investigated but not being pursued		N	Investigated but not being pursued