

Introduction

Pacific island economies depend heavily on remittances—more than many other regions in the world. For example, remittances account for 27 and 21 percent of GDP for Tonga and Samoa, respectively. Reliance on foreign exchange inflows makes access to low-cost financial services and correspondent banking for cross-border flows critical for these economies. Australia, New Zealand, and the United States each account for approximately one-third of the remittances to the region.

The cost of sending and receiving remittances to and from the Pacific, however, is high, and access to financial services became more difficult after the global financial crisis. Many money transfer operators' bank accounts have been closed, and correspondent banks have withdrawn from the region. This makes it more difficult for many Pacific Islanders to send (and receive) money to (from) their families in the islands. A full withdrawal of services would be devastating, curtailing trade and stemming remittance flows that support household income and growth in the Pacific islands. As part of the IMF's mandate to promote macroeconomic and financial stability, the IMF staff has been monitoring global trends in the withdrawal of correspondent banking relationships and changes in the cost of sending and receiving remittances. Although there have been some remedial measures by public and private stakeholders in the Pacific region, more is needed to develop a shared response. Several Pacific island countries, regional organizations, and key trading partners have requested IMF staff assistance in bringing stakeholders together to discuss feasible solutions.

In response, in February 2018 the IMF launched the *Pacific Initiative to Address the Pressures on Correspondent Banking Relationships and Remittance Channels*. The aim of the initiative is to bring together correspondent banks, respondent banks, money transfer operators, and other stakeholders to discuss practical, concrete, and actionable solutions to help alleviate pressure on

correspondent banking relationships and address the fragility of the remittance sector. Similar initiatives and facilitation work have been conducted by the IMF in other regions, including the Caribbean, sub-Saharan Africa, the Middle East and North Africa, and the Caucasus and Central Asia, reflecting the global nature of correspondent banking relationship pressure, which is not just a Pacific phenomenon.

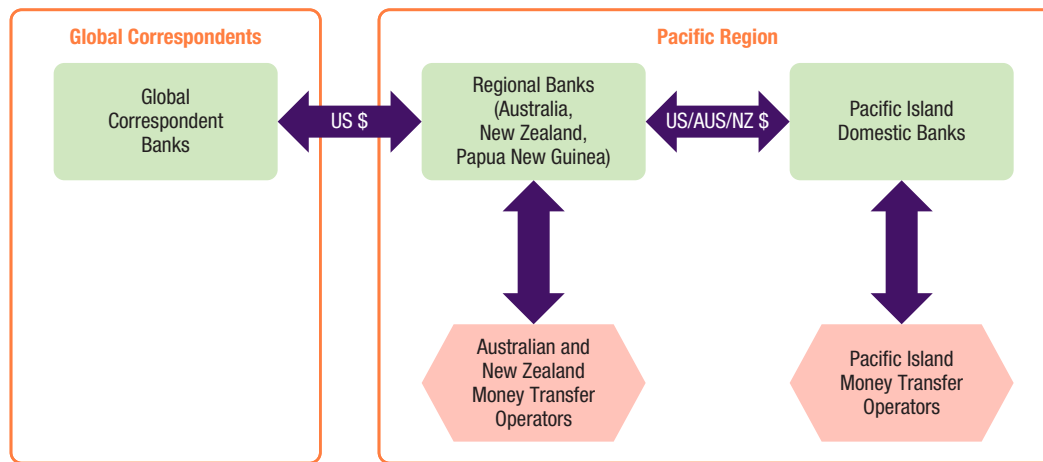
The IMF staff held three roundtables to discuss these issues with banks, money transfer operators, and Pacific island regulators in Sydney, Auckland, and Suva in February and March 2018. The Sydney and Auckland roundtables drew about 70 representatives from banks and money transfer operators based in Australia, New Zealand, and the Pacific islands. Representatives from the Financial Stability Board (FSB), Asia Pacific Group on Money Laundering (APG), Financial Services Volunteer Corporation (FSVC), World Bank, Asian Development Bank (ADB), and Australian and New Zealand authorities also participated. Pacific regulators from 11 jurisdictions attended the roundtable in Suva.

This paper summarizes the discussions and considers next steps. The paper looks at feasible concrete action that can be taken by correspondent and respondent banks, money transfer operators, the Pacific authorities, the Australian and New Zealand authorities, and international organizations. The report also draws on IMF experience, FSB recommendations, and informal discussions with the Australian, New Zealand, and Pacific island authorities. In proceeding with the recommendations, the IMF can facilitate further dialog and help financial institutions and countries adopt successful practices taken up elsewhere.

What is Correspondent Banking?

Correspondent banking enables domestic and cross-border payments. A financial institution (the correspondent) provides a deposit account or other services to another bank (the respondent) for the purposes of currency exchange, trade, and cross-border money transfers. These relationships support a range of transactions and services, including the execution of third-party payments, trade financing, the bank's own cash clearing, liquidity management and short-term borrowing, and funding investment needs in a particular currency.

- *Traditional correspondent banking links:* In the traditional form, in Figure 1, a respondent bank (in this case regional banks in Australia, New Zealand, and Papua New Guinea) have a relationship with a global correspondent bank to execute payments on behalf of their customers. The regional banks in Australia, New Zealand, and Papua New Guinea also act as correspondent banks for other smaller domestic Pacific island banks.
- *Remittances and money transfer operators:* Correspondent banking relationships also support payments by other financial institutions, including money transfer operators. Migrants based, for example, in Australia can take their remittances to a money transfer operator that has an account with an Australian bank. Similarly, a small business in the Pacific islands could use the operator to make payments for imports, and families could send money to relatives abroad. The money transfer operator nets out these amounts and transfers between Australian and Pacific island bank accounts in Australian dollars through a correspondent banking relationship. The money transfer operator may make other transfers elsewhere in the world, transmitted perhaps through a US correspondent banking relationship.
- *Regional banks use their US-based CBRs for other larger transactions.*

Figure 1. Correspondent Banking Relationships in the Pacific Region

Source: IMF staff.

Cross-border payments have traditionally flowed through large financial centers. Large-value and large-volume correspondent banking relationship flows take place across regions and in currencies such as the US dollar, euro, British pound, yen, and renminbi. US dollars account for about 50 percent of transactions. Australian and New Zealand dollars are important for Pacific transactions.

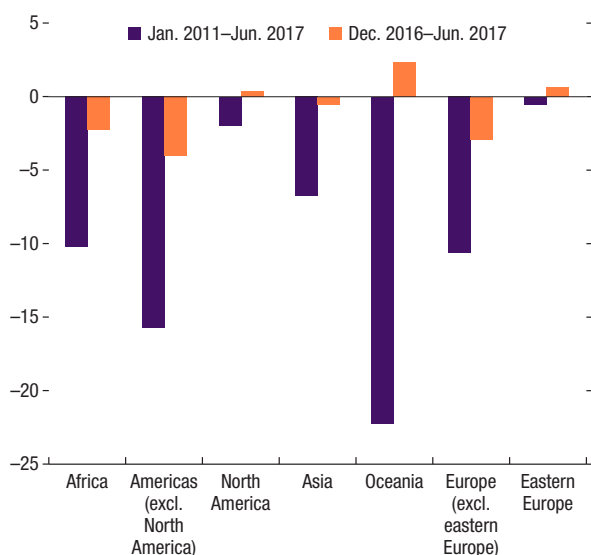
Setting and Update

Global Developments

In 2016, IMF surveys and discussions with country authorities showed that pressure on correspondent banking relationships had built up following the global financial crisis. Pressure points were noted in smaller jurisdictions in Africa, the Caribbean, central Asia, and Europe; the Pacific islands were the most affected in the Asia Pacific region. No single easy explanation stood out for the withdrawal of correspondent banking relationships. Withdrawals reflected many factors, including profitability considerations; tighter postcrisis regulation; global banks' changing business models; higher compliance costs; and risk assessment considerations, including the effectiveness of the respondent bank's compliance framework and "know your customer" concerns, especially for money transfer operators. Some of the drivers of withdrawals were connected.

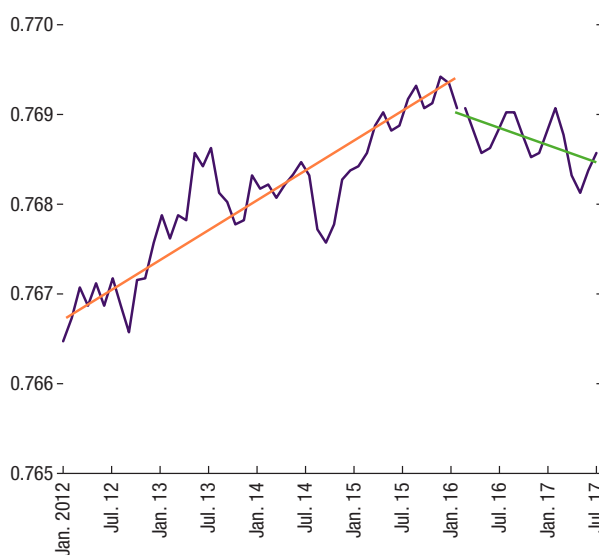
More recent information shows that correspondent banking relationships now appear to have stabilized in many regions. In 2017 some countries were able to restore correspondent banking links, and the overall situation improved slightly in eastern Europe, North America, and Oceania. At the global level, the concentration of active correspondent banking links has declined from a peak in late 2015. However, the situation varies by country, and pressure on these relationships has increased in some cases, especially in countries that rely on only one or two correspondent banking links (Figures 2 and 3).

Figure 2. Number of Active Counterparty Countries by region
(Average percent change across region)



Sources: Financial Stability Board; SWIFT Watch; and National Bank of Belgium.

Figure 3. Concentration of Active Correspondents
(GINI coefficient per corridor, three-month moving average)



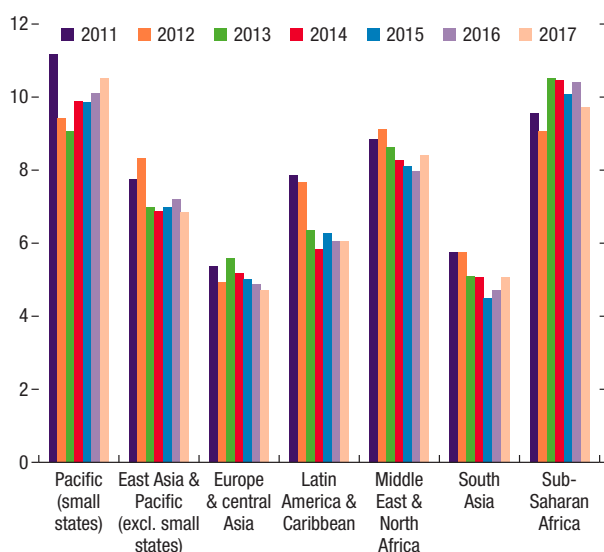
Sources: Financial Stability Board; SWIFT Watch; and National Bank of Belgium.

Pacific Developments

In the Pacific the cost of sending and receiving remittances remains among the highest in the world (Figure 4). Costs peaked in 2011 but drifted up a little in 2017. Among the Pacific islands remittance costs were stable for most countries during 2015–17. One exception is Vanuatu, where costs were on an upward trend. In August 2015 the APG membership referred Vanuatu to the Financial Action Task Force (FATF) for further action and scrutiny. This resulted in a public listing, which may have driven up costs as a result of enhanced due diligence for transactions related to Vanuatu. In June 2018 the FATF removed Vanuatu from its public listing, given progress in strengthening its anti-money-laundering and combating the financing of terrorism (AML/CFT) framework. In the opposite direction, Fiji's costs, among the lowest in the region, have seen a modest decline. The Australian Transaction Reports and Analysis Center (AUSTRAC) also noted that the number of remitters from Australia to the Pacific increased in 2017 and that the value of these remittances rose, although some Australian banks have continued to withdraw from correspondent banking relationships (Figures 5 and 6).

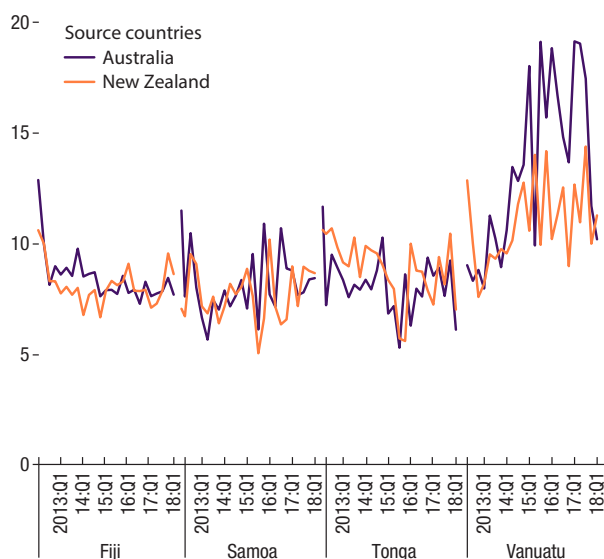
A recent IMF staff survey of Pacific island regulators looked at trends in strains on correspondent banking relationships and pressure to close money transfer operator accounts.

Figure 4. Cost of Remittances by Destination Region
(Percent of amount sent)



Sources: IMF staff calculations based on FSB (2017); World Bank, Remittances Prices Worldwide; and World Bank Migration and Remittances Database.

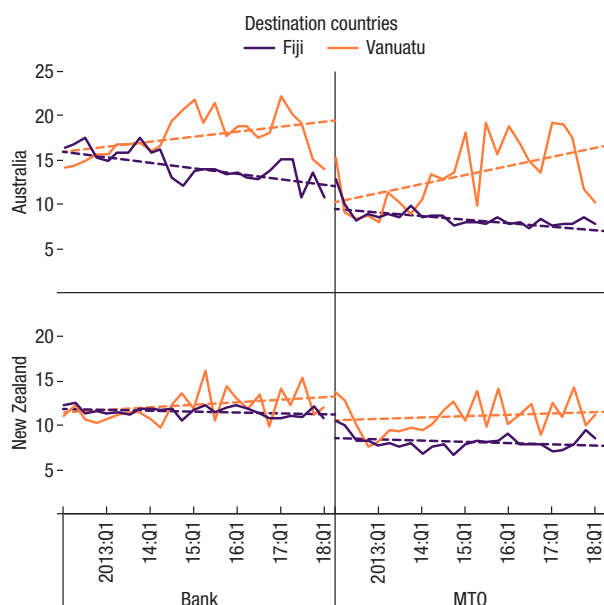
Figure 5. Quarterly Average Costs of Sending \$A 200 or \$NZ 200 via Money Transfer Operators
(Percent of sent amount)



Source: World Bank, Remittance Prices Worldwide.

- *Correspondent banking links.* Survey responses (collected in January 2018) suggest that correspondent banking relationships have remained broadly intact, but local banks are having trouble establishing new relationships in five Pacific island countries. Some local banks are unable to generate sufficient transactions volume, which puts pressure on correspondent banks to withdraw. Noncompliance with the Foreign Account Tax Compliance Act is also reported to be a problem. For three countries, the concentration of correspondent banking relationships is high—for example the Marshall Islands has access to only two correspondent banking relationships for US dollars through

Figure 6. Fiji and Vanuatu: Remittance Costs and Trends to send \$A 200 or \$NZ 200
(Percent of sent amount)



Source: World Bank, Remittance Prices Worldwide.

two banks and one money transfer operator; in the Solomon Islands one bank has faced difficulty maintaining a correspondent banking relationship; and Samoa lost but then reestablished some correspondent banking relationships. Some countries reported that the compliance cost of retaining a correspondent banking relationship has increased.

- *Remittance costs and closure of money transfer operator bank accounts.* Four Pacific islands have reported closures since 2013. Survey respondents noted that banks had closed foreign exchange dealers' accounts over concern about risk management; one bank exited all its cross-border relationships; and some banks had refused accounts to charities and church groups. Some money transfer operators have used business or personal accounts for transfers, and some have physically carried cash across borders. One country reported that money transfer operators undertook independent audits but still could not retain their correspondent banking relationships. On a more positive note, some respondents noted that money transfer operators had established correspondent banking relationships in currencies other than US dollars—for example, in euros and renminbi.

Encouragingly, a study by AUSTRAC showed that the overall money laundering and terrorism financing risk rating of the remittance corridor from Australia to the Pacific islands is low (Box 1). The purpose of the report was to provide more information on (AML/CFT) risks associated with money transfer operator remittances specifically through the channel from Australia to the Pacific islands. The finding that the overall risk is low (see box) fills an information gap and could help contribute to relieving correspondent banks' concerns about risk assessment of the Australia to Pacific remittance channel (although it is hard to distinguish a major effect so far).

Some tailored solutions have been implemented; for example, for remittance flows between Tonga and New Zealand. The Tonga Development Bank (TDB) launched the 'Ave Pa'anga Pau voucher system in February 2017, with International Finance Corporation assistance. This product can be purchased online only in New Zealand and redeemed or remitted to a bank account in Tonga, and purchases are limited to \$NZ 1,000 a day and \$NZ 10,000 a year. The New Zealand dollar funds used to purchase vouchers are deposited to the TDB account with Kiwibank; vouchers received in Tonga can be cashed at TDB branches. The voucher reduces the frequency of international settlements between Tonga and New Zealand. The TDB will receive and send funds only via electronic payments in New Zealand before disbursing them in Tonga using the liquidity obtained by importers of goods. This avoids frequent use of international settlements with its correspondent bank. The voucher system has been judged by New Zealand authorities to be AML/CFT compliant, and SendMoneyPacific estimates the remittance cost for an average transaction equivalent to US\$200 at about 4.5 percent, with no transaction fees. As of June 2018, transactions worth about US\$2 million had taken place under this system.

Box 1. AUSTRAC Report—Remittance Corridors: Australia to Pacific Island Countries

The report was relatively limited in scope, focusing on flows from Australia to the Pacific islands (and not on reverse flows), and it covered remittances solely through money transfer operators.¹ The bulk of flows were to Fiji, Samoa, and Tonga.

Looking at the five risk pillars, the report found that the criminal threat environment was low risk. The customer profile was largely individuals, with a low number of politically exposed persons using the remittance channels, also a low risk rating. The purpose of the flows was low risk, mainly supporting families and the community, with peak flows around significant life events and natural disasters. The value of remittance transactions is typically very low, with 75 percent of transactions below US\$330. However, the prevalent use of cash yielded a medium risk. Detection and mitigation of risks by remittance businesses were also judged to be a medium risk.

¹“Remittance Corridors: Australia to Pacific Island Countries, Money Laundering and Terrorism Financing Risk Assessment” was produced by the Australian Transaction Reports and Analysis Center with support from the Australian Department of Foreign Affairs and Trade. It covers the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu.

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Challenges Identified in Pacific Roundtables

The roundtables were the first time banks and money transfer operators—including those from the Pacific—had gathered to discuss correspondent banking relationships. Participants' views varied regarding the main drivers of withdrawal from correspondent banking relationships, pressure to close money transfer operators' bank accounts, and the challenges to be addressed. Time was relatively limited during the roundtables, and although discussion helped draw out some common themes, it did not fully resolve all differences. The main challenges were viewed as follows:

- *Banks based in Australia and New Zealand.* The limited profitability of the remittance sector in the Pacific resulting from high fixed costs, the small scale of transactions (about US\$300 on average), and remitters' habit of small but frequent transactions instead of larger less frequent transactions, make correspondent banking relationships a low-margin and unattractive business proposition. This is especially true when set against the potential for fines imposed by the regulatory authorities for AML/CFT lapses (although there have been no fines specifically related to money transfer operator transactions). The banks report that the ownership of money transfer operators is not sufficiently transparent, and aggregating and netting by these operators is a concern. This makes it difficult for banks to comply with AML/CFT standards and know your customer requirements. The banks must apply AML/CFT standards rigorously, and tighter global regulatory standards since the global financial crisis are unlikely to reverse. In some cases, FATF listing creates additional compliance costs. Money transfer operators could do much more to strengthen compliance with AML/CFT requirements. The banks pointed out that to meet the various demands of regulatory regimes across Australia, New Zealand, and the rest of the world (and given regulatory uncertainty), they aim for the highest standards. In some instances, banks argue that they need information on

the customers' customers, even though the FSB and FATF note that this is neither necessary nor required by the international standard. Some banks trust it is a requirement to comply with corporate governance laws, even if not required by AML/CFT standards.

- *Money transfer operators.* The business model of money transfer operators in Australia, New Zealand, and the Pacific varies widely. Some are global, such as Western Union and MoneyGram, and they operate through a network of agents. But many are small family operations that specialize in particular corridors and communities. The smaller operators believe that they are required to provide a substantial amount of information to maintain or open bank accounts. They face high transaction costs. Their impression is that the whole sector is regarded as risky by global correspondent banks, which leads to a high regulatory burden. Many money transfer operators complained that bank accounts had been closed without any explanation from the bank. They felt they did not have enough information on the standards the banks expected of them. Closure of money transfer operator accounts resulted in their resorting to other channels, such as personal bank accounts or physically transporting cash, which could drive activity underground and raise financial stability risks.
- *Global correspondent banks.* Unfortunately, no global banks participated in the roundtables, so they were not able to explain their views, needs, and constraints. As in other regions, however, the key issue is likely a sense that the risk-versus-reward ratio associated with remittance business in the Pacific is high. In this context, the global banks that had correspondent relationships with banks based in Australia and New Zealand are perceived as lacking an understanding of the Pacific and treating all remittances in the region as high risk (despite AUSTRAC findings that the remittance channel from Australia to the Pacific is low risk). The roundtable and World Bank interviews with banks revealed that some participants felt that correspondent bank withdrawals and money transfer operator closures were a result of pressure on the Australian banks from US correspondent banks not to handle "risky-looking" businesses or customers. To the extent that the problems stemmed from the US global correspondent bank, the problem requires a multilateral solution.
- *Regulators.* Despite the efforts of the US authorities to clarify regulatory expectations and efforts by the FSB to explain the FATF standards, there is still a view that greater clarity is needed. Coordination among the Pacific island regulators is thought to be lacking or not sufficiently effective and that greater coordination between the Pacific and the Australian and New Zealand authorities is needed. Some pointed to a lack of clarity by the New Zealand authorities, partly because responsibilities related to AML/CFT are spread across a number of agencies. Across the world, the FSB has identified weak industry supervision of money transfer operators as a

problem. For regulators and supervisors, regulation poses a challenge given the diversity of scale of money transfer operators, small amounts, and small entities—which may not be the highest priority for risk-based supervision. In some cases, money transfer operators are not licensed or registered. The Pacific islands also need to improve the effectiveness of the AML/CFT framework, ensure compliance, and fully communicate regulatory and supervisory actions to key stakeholders.

- *Regional communication.* Although regulators from Australia, New Zealand, and the Pacific meet on a regular basis, there is no similar forum among either the banks or the money transfer operators. More regular communication between and among banks and money transfer operators could help identify ways to keep correspondent banking relationship channels and money transfer operator accounts open and facilitate new solutions, including through fintech. Existing bankers' associations in Australia and New Zealand and money transfer operator associations could play a helpful role. The lack of regional harmonization in the Pacific may also have contributed to high costs for banks and money transfer operators working across countries. Greater and more effective coordination among Pacific island regulators would also help and could perhaps be promoted by the Pacific Island Regional Initiative of the Alliance for Financial Inclusion (PIRI) with the support of the Association of Financial Supervisors of Pacific Countries (AFSPC). Strengthening payment systems with the help of the World Bank could help promote better communication.
- *Further dialog.* Progress could be made through further discussions among all parties to help build greater understanding and a broader consensus on the issues to be tackled. It would be especially helpful to increase the engagement with those major global banks that have correspondent banking relationships in the region. Increased dialog has helped in other regions, such as the Caribbean. Further dialog could also look at the main gaps in technical assistance and how these could be filled and could help participants keep up-to-date with fintech and other potential solutions.

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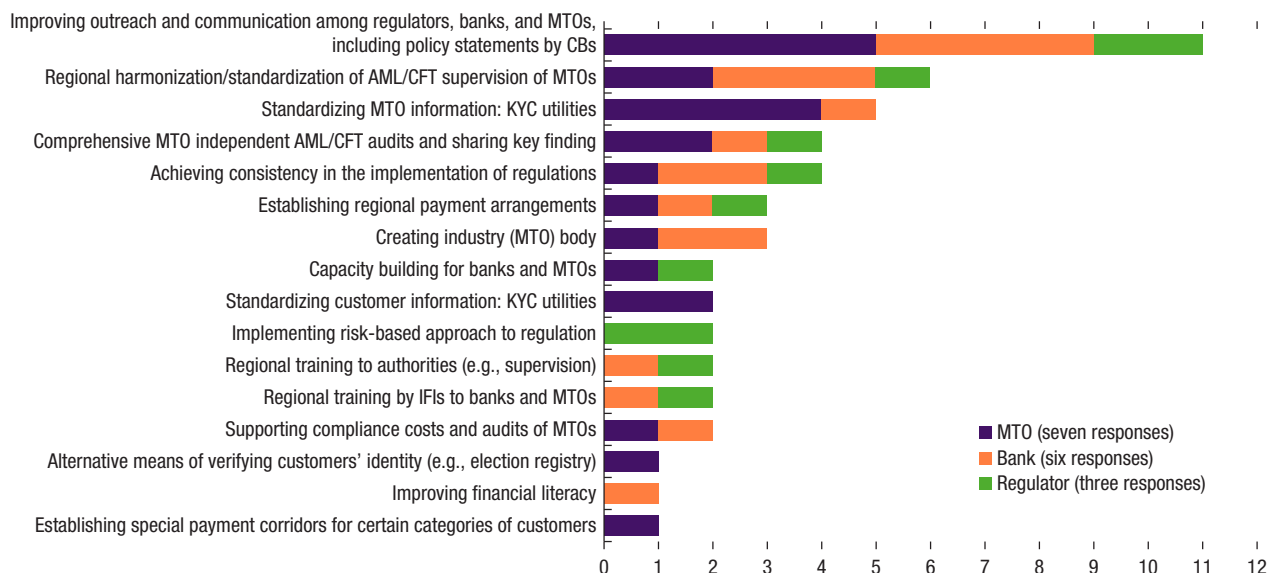
Matrix of Potential Solutions

Throughout the roundtables the IMF staff used a matrix of possible solutions developed as a result of discussions in other regions. The matrix was used to generate discussion about feasible solutions to the correspondent banking relationship problem and to develop a consensus on the most promising avenues to address the problem.

The draft matrix was discussed during the roundtables and then distributed to participants for further views, to seek potential solutions. The matrix (see Figure 7) consists of a set of possible measures, largely based on previous IMF experience with correspondent banking relationships. These measures were grouped into four categories:

1. *Ensuring banks' capacity to assess and manage correspondent banking relationship risks.* This category focuses largely on improving communication and information sharing among stakeholders.
2. *Addressing compliance costs and profitability.* These measures focus on technological improvements and standardization of processes with the aim of lowering AML/CFT compliance costs and other costs of remittances.
3. *Regional solutions.* These measures are best designed and implemented on a regional basis, including training and harmonization of regulations and supervision.
4. *Public support.* This category looks at the potential role of the public sector in facilitating and potentially helping finance solutions.

Key objectives were to refine the list of measures (adding, dropping, or modifying) to reflect needs and circumstances in the Pacific and to prioritize across measures. Some of this refinement happened during the roundtables, but most feedback came later through written comments received on the draft matrix from 16 participants, including 3 regulatory agencies, 6 banks, and 7

Figure 7. Combined Matrix Results

Source: Responses to Pacific Roundtable on Correspondent Banking Relationship surveys compiled by IMF staff.

Note: AML/CFT = anti-money laundering/combating the financing of terrorism; CBs = central banks; IFIs = international financial institutions; KYC = know your customer; MTO = money transfer operator.

money transfer operators. In some cases, the same participants provided separate responses to the Sydney and Auckland matrices. In addition, the meeting with Pacific island regulators in Suva in March 2018 also provided a valuable opportunity to incorporate their views on priorities for action.

Although, as during the roundtables, there were diverse views on priorities, there was also broad agreement on a relatively limited group of measures. These included:

- Measures to improve communication, coordination, and information sharing;
- Measures to enhance regulatory compliance, supervision, and cost control;
- Measures to strengthen knowledge and efficiency through training;
- Possible fintech measures—although discussed only in a limited way during the roundtables, these could contribute to lower compliance and remittance costs. Many were skeptical that fintech alone can deliver the solution, and it would need to be accompanied by trust and customer due diligence.

Responses to the matrix pointed to the several areas for solutions (Table 1).

Communication, Coordination, and Information Sharing

Participants agreed on the need for better communication and information sharing among stakeholders. Communication and stronger coordination among stakeholders could lower AML/CFT compliance costs for banks and money transfer operators. Issues between individual institutions could be resolved more quickly and with less jeopardy to maintenance of correspondent banking relationships. Specific measures proposed are shown in Table 1.

Supervision, Compliance, and Cost Control

Participants recognized that a central challenge faced by the remittance sector is the need to meet higher AML/CFT standards while keeping costs low. Participants agreed on the need to strengthen compliance with customer due diligence requirements. On cost control, there was a strong emphasis on the potential gains from standardization and harmonization of regulation, supervision, bank requirements, and money transfer operator practices. Fragmentation in all these areas increases costs at all levels. Specific proposals are presented in Table 2.

Training and Capacity Building

Participants agreed that implementation of numerous recommendations will require training and capacity building in the remittance sector, including for money transfer operators and local banks in the Pacific. For supervisory authorities, as well as financial institutions, training can promote increased compliance, reduced risk, and more consistent implementation of standards and lower both compliance and monitoring costs. Financial literacy edu-

cation for remittance senders and recipients can also make compliance less costly. Specific proposals are included in Table 3.

Table 1. Communication, Coordination, and Information Sharing

Proposed Actions	Responsibility for Implementation	Comments, Progress to Date, and Timeline
1. Regular meetings among major stakeholders, including regulators, banks, and money transfer operators to promote clear communication, take stock of new developments, progress in resolving previously identified issues, and identify emerging issues to be addressed.	Major regulatory or other authorities could facilitate periodic meetings.	Reserve Bank of Australia hosted a meeting of stakeholders in Sydney in August. New Zealand could consider organizing a forum for New Zealand-based money transfer operators, banks, and government agencies. The IMF will organize a roundtable in May 2019 to follow up on technical assistance priorities. Propose that Pacific island country regulators gather banks and money transfer operators together for a discussion once a year. (Short term)
2. Extend discussion of correspondent banking relationships in the Pacific to include US authorities and principal correspondent banks.	IMF with assistance of FSVC and FSB.	IMF and FSB will engage with US global banks and regulators with the aim of sensitizing them to the circumstances in the Pacific and encouraging participation in regional discussion of correspondent banking relationships and AML/CFT issues. Central Bank of Samoa comment: A possible forum would be to invite US regulators and global banks to the annual Pacific Central Bank Governors Meetings. (Short term)
3. Ensure ready access to information on AML/CFT supervisory priorities and outcomes, including national risk assessments.	Australian, New Zealand, Pacific island country supervisory authorities with the assistance of the ADB.	Several Pacific islands have developed national risk assessments with the assistance of the ADB. These could be posted on the FATF webpage (http://www.fatf-gafi.org/publications/methodsandtrends/documents/ml-tf-risks.html), as well as on sites within the region. APG and FATF can advise on additional documentation that would be helpful to post in a centralized location. (Medium term)
4. Complement the AUSTRAC 2018 Pacific remittance corridors risk assessment with assessments for New Zealand–Pacific corridors.	New Zealand and Pacific island country regulatory authorities with the assistance of the IMF.	Data limitations may preclude a replication of the AUSTRAC analysis, but some quantitative assessment is likely to be feasible. Analysis of this kind could help bolster the case for a risk-based approach to correspondent banking relationship management. (Medium term)
5. Establish a Pacific island money transfer operator association and code of conduct to promote coordination and high standards of AML/CFT compliance among members, strengthen communication, and report on admission of agents in the money transfer operator sector.	Pacific island money transfer operators, with some assistance from ARCPA.	Steps are being taken to develop an association for Pacific island money transfer operators, as a private sector initiative. Outreach to ARCPA could help provide advice on the best way to set up such an association and governance structures. Short term International Association of Money Transfer Networks (IAMTN) is developing a code of conduct. (Medium term)
6. Money transfer operator associations could clarify for members the banks' onboarding requirements and ensure that the operators' certification requirements are consistent with these.	ARCPA and other money transfer operator associations, coordinating with banks.	(Medium term)

Table 2. Supervision, Compliance, and Cost Control

Proposed Actions	Responsibility for Implementation	Comments and Progress to Date
1. Further clarify regulatory expectations in Australia and New Zealand, especially with respect to implementation of a risk-based approach, in line with FSB action plan.	Australian and New Zealand authorities.	FSB action plan: <ul style="list-style-type: none"> Publish guidance on banking money transfer operators and supervisory and regulatory expectations of these operators. Implement a risk-based approach. (Short term—FSB timeline later in 2019; some authorities have already implemented this recommendation.)
2. Develop and implement simple, standardized template utilities for money transfer operator customer identification (including biometric data), due diligence, and transaction recording—to be rolled out regionally.	Development overseen and funded by an international financial institution. Implementation will benefit from support from money transfer operator associations and, perhaps, regulatory authorities and banks.	The ADB, with IMF technical advice, has developed project terms of reference and will fund development of a pilot for implementation in Samoa. Use of a standardized template, consistent with Australian and New Zealand AML/CFT monitoring and reporting requirements will lower compliance and transaction costs. (Short term)
3. Strengthen AML/CFT audits of larger money transfer operators. Share key findings with banks and supervisors.	Money transfer operators: assistance from regulatory authorities and banks may be helpful in determining standard and coverage of audits, as well as suitable audit firms.	Funding and quality of audits are key considerations. Standardized audits will lower compliance costs. In New Zealand, money transfer operators audits must be conducted by a suitably qualified independent auditor every two years (audit reports are submitted to the regulator only if requested) and could serve as a model. (Medium term)
3. Harmonize bank onboarding and due diligence information requirements.	Banks and bankers' associations, preferably with input from regulatory authorities and money transfer operator associations.	Harmonization will lower compliance challenges and costs for money transfer operators. Note that harmonization would facilitate money transfer operator associations' guidance to members on compliance needs (see Tables 1 and 6). (Medium term)
4. Harmonize AML/CFT regulatory requirements across Pacific island countries and ensure consistency in implementation in accordance with international standards.	Pacific island regulatory authorities, with advice from APG. identify training needs.	Harmonization and greater consistency would lower compliance and due diligence costs for money transfer operators and banks. APG evaluations across several Pacific islands can help ensure greater consistency. Greater coordination among Pacific island regulators and further training opportunities could also help. (Medium term)
5. Standardize cross-border payment messages, based on ISO20022.	Banks.	Proposed by FSB. Standardization will lower transaction costs and facilitate information sharing. (Medium term)

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Remittance Architecture and Technology

Some solutions discussed at the roundtables and more generally in the context of remittances call for more radical changes in the architecture and technology of cross-border transactions. One model uses a specialized bank to handle payments with risks in particular payments' corridors. The Tonga Development Bank currently provides such a service, and the World Bank is looking into replicating this model for other corridors. Another model uses a specialized, regulated financial payments firm as an intermediary between sending and receiving jurisdictions; this reduces the number of correspondent banking relationships needed, as well as the AML/CFT compliance costs.

Another longer-term approach is to consider fintech solutions to lower the cost of international transfers or to facilitate AML/CFT compliance at low cost. Specific proposals are shown in Table 4.

Table 3. Training and Capacity Building

Proposed Actions	Responsibility for Implementation	Comments and Progress to Date
1. Training and capacity building for authorities to improve AML/CFT supervision of banks and money transfer operators and strengthen financial intelligence units' capacity to develop guidance and promote information sharing.	APG, IMF, ADB and some supervisory authorities within the region.	The IMF has planned training for Samoan authorities. Further regional training will be developed by the IMF. Additional discussion and coordination among training providers is essential, given limited resources. This could be a major focus of a roundtable follow-up in early 2019. Short term
2. Training and capacity building in banks and money transfer operators.	Supervisory authorities, with support from the ADB, APG, and IMF, some supervisory authorities within the region.	The APG and the IMF cannot provide training directly to private sector institutions. Support can be provided through train-the-trainer assistance to supervisory authorities. This could also be included in countries' financial inclusion strategies. Medium term
3. Training of remittance senders and recipients	Banks, money transfer operators, and authorities, perhaps with involvement of the Alliance for Financial Inclusion.	Some banks in Pacific island countries already have financial literacy programs. These could be the basis for specific training on sending and receiving remittances. In New Zealand, training can be linked to the recognized seasonal employer labor mobility program. Medium term

Table 4. Remittance Architecture and Technology

Proposed Actions	Responsibility for Implementation	Comments and Progress to Date
1. Use specialized banks to handle remittances.	Private sector.	The Tonga Development Bank already functions this way in a limited form for the New Zealand–Tonga corridor. Consideration is being given to expanding this solution across other remittance corridors. A second-tier commercial bank is examining feasibility for certain remittance corridors in the Pacific. Medium term.
2. Use a financial “hub and spoke” payments network to minimize the need for correspondent banking relationships and lower the cost of due diligence.	Private sector.	The IMF will explore feasibility. (Medium term)
3. Use fintech to lower the cost of remittances and meet AML/CFT compliance requirements.	Regulators should encourage “safe development of fintech” in line with the Bali Fintech Agenda.	Fintech and remittances will be discussed at the Joint Central Bank of Samoa–IMF–ADB regional seminar FinTech and Financial Inclusion in the Pacific Island Countries on November 13, 2018. (Medium term)

Priorities for Various Agents

Table 5 sets out the top three priorities for banks, money transfer operators, Regulatory authorities, and international financial institutions.

Table 5. Top Priorities for Banks, Money Transfer Operators, Regulatory Authorities, and International Financial Institutions

Action	Partner Agencies	Tables 1–5 References
Banks		
Harmonize and share bank onboarding and due diligence information requirements.		Table 2
Standardize cross-border payments messages.		Table 2
Participate in training for remittance senders and recipients.	Money transfer operators, regulatory authorities, international financial institutions	Table 3
Money Transfer Operators		
Establish a Pacific islands money transfer association and code of conduct to promote coordination and high standards of AML/CFT compliance among members, strengthen communication, and report on admission of agents in the money transfer operator sector.		Table 1
Implement simple, standardized template utilities for money transfer operator customer identification (including biometric data), due diligence, and transaction recording.	International financial institutions and regulatory authorities	Table 2
AML/CFT audits of larger money transfer operators, with key findings shared with banks and supervisors.	Regulatory authorities	
Regulatory Authorities		
Regular meetings among major stakeholders, including regulators, banks, and money transfer operators, to promote clear communication, take stock of new developments, progress in resolving previously identified issues, and identify emerging issues to be addressed.		Table 1
Clarify and harmonize regulatory requirements and expectations, especially with respect to implementation of a risk-based approach, in line with the FSB action plan.		Table 2
Training and capacity building in banks and money transfer operators	International financial institutions and other regulatory authorities	Tables 2 and 3
International Financial Institutions		
Training and capacity building for authorities to improve AML/CFT supervision of banks and money transfer operators and strengthen financial intelligence units' capacity to develop guidance and promote information sharing.	Other international financial institutions and national regulatory authorities	Tables 1 and 3
Extend discussion of correspondent banking relationships in the Pacific to include US authorities and principal correspondent banks. Improve communication between the Pacific regulators and all involved Australian and New Zealand regulators.		Tables 1 and 2
Develop and implement simple, standardized template utilities for money transfer operator customer identification (including biometric data), due diligence, and transaction recording—to be rolled out regionally.	National authorities and money transfer operators	Table 2

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Next Steps

The IMF staff is reaching out to other international financial organizations, the Australian, New Zealand, and Pacific island authorities, banks, and money transfer operators to follow up on the recommendations in this paper. The expectation is that implementation of short-term recommendations could begin within one year, whereas it is recognized that medium-term actions will take more time to develop and to yield results. The IMF staff plans to follow up with a Pacific roundtable in May 2019, this time focused on the key technical assistance priorities for Pacific island regulators, banks, and money transfer operators. It will also be a time to take stock of the assistance available, with the understanding that resources are constrained but needs are high. The IMF staff is also closely watching development of a pilot customer due diligence tool in Samoa and following up on possible formation of an association of money transfer operators in the Pacific. The IMF continues to facilitate discussion on fintech and financial inclusion to help identify new ways to reduce the fragility of correspondent banking relationship links and remittance flows. In this way, the IMF can promote further dialog and help countries adopt practices that have proved successful in other regions. The IMF staff will also continue to monitor pressure on remittances and correspondent banking relationships in the context of bilateral surveillance in the Pacific islands and capacity development.