

Inquiry into the adequacy and efficacy of Australia's AML/CTF regime

Submission to the Senate Legal and Constitutional Affairs References Committee

August 2021

The Reserve Bank of Australia (the Bank) has prepared this submission in response to the Senate Legal and Constitutional Affairs References Committee Inquiry into the adequacy and efficacy of Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regime.

The submission is quite narrow, reflecting that the Bank is not an expert in the full range of AML/CTF regulations, but does see the effects of some of these regulations in its broader economic, financial market and payment operations. The submission focuses on two areas – supporting remittance flows to the South Pacific and the potential whitelisting of trusted entities – where we see a case to consider revisions to current arrangements to better support business innovation and economic outcomes.

Supporting remittance flows to the South Pacific

Over recent years, it has become increasingly apparent that the approach taken by some financial institutions to implement Australia's AML/CTF regulatory arrangements is affecting the flow of low-risk remittances from Australia to South Pacific countries. The Bank is focused on supporting remittance flows from Australia to the South Pacific because of the significance of these flows for the economic wellbeing of residents in many countries in this region. In countries such as Fiji, Vanuatu, Samoa and Tonga, remittances were equivalent to between 7 and 37 per cent of gross domestic product in 2020 and Australia is one of the main sources of those remittances.¹

The available evidence suggests that, for several years, specialised money transfer operators (MTOs) servicing the South Pacific have found it difficult to obtain or retain bank accounts with Australian banks. Having access to a bank account to undertake transactions is necessary for MTOs to service their customers effectively.² Banks report that the cost and difficulty in ensuring that their MTO customers are compliant with AML/CFT and 'know your customer' requirements, the smaller size of some of these remittance corridors and MTO customers, and broader risk appetite constraints affect their willingness to service this market segment.

While AUSTRAC is already playing a positive role in helping to support these remittance flows, ideas worthy of consideration include:

- Increasing the amount of initial or ongoing oversight of, and training and support for individual money remitters. This could help to further enhance compliance standards and professionalism in the money remitter sector. It may also reduce the extent of the ongoing due diligence that

1 See RBNZ (2021), 'Correspondent banking in the Pacific', [Correspondent Banking in the Pacific \(rbnz.govt.nz\)](https://www.rbnz.govt.nz)

2 See RBA (2021), 'Submission to Payments System Review', [Submission to Payments System Review \(rba.gov.au\)](https://www.rba.gov.au)

banks need to undertake on money remitters that they have as customers, thereby lowering banks' costs and making it more attractive for banks to service these customers.

- Encouraging banks to take a risk-based approach rather than a zero-tolerance approach to AML/CTF compliance. Guidance could be provided to banks to support the application of risk-based assessments of the remittance providers they have as customers, including those that focus on low-risk customers in the Pacific. Emphasis could also be provided on existing safe-harbour provisions in the legislation³ to allow remittance providers to apply simpler, less costly AML/CTF procedures to their low-risk customers.

The implementation of these measures could provide opportunities for the application of more appropriately targeted AML/CTF-related controls that better reflect the risk profile of the spectrum of participants in the South Pacific remittance corridor.

Potential whitelist of trusted entities

The second issue raised in this submission relates to the arrangements that apply to real-time digital payments.

The Australian banking industry is in the process of developing a service to enable large payers, such as corporate or government entities, to send an electronic payment that includes a secure hyperlink to a PDF document. The provision of this functionality is part of a growing trend globally to improve efficiency and lower the costs of payment services by improving the amount and quality of data that are able to be transferred together with a payment. Some of these initiatives, such as the adoption of the ISO 20022 standard for payment message formats, provide for structured remittance data that make it easier and faster for systems to screen for financial crimes compliance.

How it works:

- organisational payers that sign up to the 'Payment with Document' service could optionally include a 'link' to a document when sending a payment
- a payee recipient would view the payment in their online banking channel and be able to click on the 'link' accompanying the payment information, which would provide secure, authenticated access to the PDF document associated with that particular payment
- the documents would be held by accredited Document Host providers – for example, if an Australian government agency utilised this service, myGov could store the documents and an authenticated link would provide direct access to the document on myGov.

The 'Payment with Document' service would provide clear benefits to both payers and payees and would be a valuable service for a number of organisations. It would be of particular value to a payer that sends a high volume of correspondence to recipients detailing information about their payments. There is often a lag between payment receipt and receipt of the related correspondence – this generates a high number of calls to customer call centres, which is expensive and inefficient to manage. A 'Payment with Document' service would also be valuable to payees, who could quickly and easily access correspondence directly from their banking app or online banking service to understand what the payment was for.

Challenges with the solution and relevance to AML/CTF

Providing detailed information with the financial transaction through electronic banking channels makes this information available for consideration by financial institutions in meeting their AML/CTF regulatory obligations. Financial institutions have indicated that they will need to be able to screen any documents linked to a payment in order to meet these obligations. Some financial institutions have acknowledged that they may choose not to screen certain documents based on a risk

³ See clauses 31 and 31 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

assessment of the likelihood of a document providing any information that could identify money laundering, terrorist financing or other illegal activities. In contrast, others believe the regulator would expect them to screen all documents to be able to assess and manage these risks.

If screening of all remittance documentation is required or thought to be required, even where they have low AML/CTF risk, some organisations may not use the service because of the risks associated with their customers' personal information being accessed and viewed by their customers' financial institutions. For instance, it would be inappropriate for a financial institution to be screening correspondence between an Australian government agency and its customer that sets out the purpose and calculation of the customer's welfare benefit. If payers do not support the 'Payment with Document' service because of these concerns, an opportunity for significant efficiency gains and service improvement may be lost.

Potential solution

A possible solution would be to maintain a whitelist of trusted payer entities that provides relief to financial institutions from the requirement to screen documents linked to payments from those trusted entities. Our understanding is financial institutions would welcome such a whitelist, as the cost and effort involved in screening all linked payment documents would be challenging.

This would mean:

- correspondence sent with a payment by trusted entities, such as an Australian government agency, would remain private to the payment recipient
- banks would be permitted to access the document only in order to provide technical support services to the account-holder and only with the account-holder's consent.

To support this initiative, a formal governance framework could be developed. This could cover issues such as the eligibility criteria required to become whitelisted, including potential eligibility of non-government entities, arrangements for hosting the whitelist and the appointment of an approval authority for managing the whitelist. Subject to appropriate resourcing being available, AUSTRAC could take on this role.

Reserve Bank of Australia
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References

AUSTRAC (Australian Transaction Reports and Analysis Centre) (2017), 'Remittance Corridors: Australia to Pacific Island Countries – Money Laundering and Terrorism Financing Risk Assessment', Strategic Analysis Brief, November

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Reserve Bank of New Zealand (2021), 'Correspondent banking in the Pacific', July