

Remittances to Samoa:

A Safe Payment Corridor

Maksym Markevych and Miho Tanaka (both LEG)

SIP/2025/061

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on Dec 18, 2024. This paper is also published separately as IMF Country Report No 25/33.

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Remittances to Samoa: A Safe Payment Corridor**Prepared by Maksym Markevych and Miho Tanaka**

Authorized for distribution by Siddharth Kothari and Richard Berkhout

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ABSTRACT: This paper provides a targeted analysis of ML/TF risks pertaining to remittances to Samoa, confirming limited risks, and discusses potential opportunities for streamlining applicable AML/CFT requirements to operationalize regional remittances risk assessments. Over the past decade, Samoa has been subject to de-risking, which has resulted in Correspondent Banking Relationship (CBR) withdrawals, CBR fragility and rising concentration risks, especially for money transfer operators (MTOs). The paper presents an analysis of authorities' and the financial sector's risk understanding and publicly available information on crime and the ML risk environment and concludes that there are limited ML/TF threats to the main remittance corridors to Samoa. Samoa's ML/TF vulnerabilities - mostly related to capacity and resource constraints - are alleviated by the low ML/TF threat environment and regional information exchange and capacity building. Based on these findings, the paper provides an overview of potential regulatory and supervisory measures to promote a risk-based approach to CBRs to streamline the AML/CFT requirements for low-risk remittances to Samoa.

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SELECTED ISSUES PAPERS

Remittances to Samoa

A safe Payment Corridor
Samoa

Prepared by Maksym Markevych and Miho Tanaka (both LEG)¹

¹ The authors would like to thanks Siddharth Kothari, Richard Berkhout, the Samoan and New Zealand authorities and the private sector participants. We also thank Rosemary Fielden and Stella Tam for administrative support.



SAMOA

SELECTED ISSUES

December 18, 2024

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LEG)

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Abbreviations and Acronyms

AIV	Article IV
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CBR	Correspondent Banking Relationship
CBS	Central Bank of Samoa
CDD	Customer Due Diligence
CSPs	Company Service Providers
DNFBPs	Designated Non-Financial Businesses and Professions
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
G-20	Group of 20
GDP	Gross Domestic Product
IBC	International Business Companies
LEA	Law Enforcement Authority
MLA	Mutual Legal Assistance
MTO	Money Transfer Operator
NPO	Non-Profit Organization
NRA	National Risk Assessment
PALM	Pacific Australia Labour Mobility
PEP	Politically Exposed Persons
PIC	Pacific Island Countries
RSP	Remittance Service Provider
SAT	Samoan Tala
SFIU	Samoan Financial Intelligence Unit
SRA	Sectoral Risk Assessment
STR	Suspicious Transaction Report
TCSPs	Trust and Company Service Providers
UNODC	United Nations Office on Drugs and Crime
USD	United States Dollar

REMITTANCES TO SAMOA: A SAFE PAYMENTS CORRIDOR¹

1. In the last decade, global and regional correspondent banks have been terminating or restricting business relationships with certain client categories, especially in the Pacific Islands. Some key drivers behind this decline in correspondent banking relationships (CBRs) between banks, and the closing of bank accounts of money transfer operators (MTOs), are related to lower operational and financial risk appetites of banks. These trends have been exacerbated in Pacific Island Countries (PICs) by lower returns compared with other jurisdictions due to smaller markets and lower levels of financial activity. The cost-benefit analysis leading to de-risking decisions stems from changes in the regulatory and enforcement landscape, ML/TF risk perception, rising AML/CFT compliance costs, increased supervisory pressure and sanctions for non-compliance with AML/CFT regulations, bilateral economic and trade sanctions, increased demands for tax transparency, and unclear regulatory expectations and difficulties in managing and mitigating cross-border ML/TF risks associated with CBRs.²

2. Money transfer operators (MTOs) are particularly affected by CBR³ pressures, with many MTOs de-banked (i.e. lost bank accounts and unable to establish new bank accounts), increasing the cost of remittances. Though some remittances may pose elevated ML/TF risks, some correspondent banks generally treat all remittance corridors, MTOs and all the transaction categories in a remittance corridor as inherently higher risk and, as a result do not onboard money transfer operators or outright de-risk them. De-risking may therefore lead to fewer and more fragile CBRs and impinge on competition, resulting in more limited remittance services being rendered at a higher cost. In some cases, local/national banks have assessed that the level of risks posed by an MTO is acceptable but still decided not to onboard (or to terminate) some business relationships due to their “upstream” correspondent banks’ risk appetite. In the Pacific, these negative developments have forced some smaller MTOs to close, become agents of larger businesses, or to continue remittance transactions through unregulated channels or alternative arrangements such as goods for cash exchanges and cash couriers. Such alternative arrangements may also pose higher ML/TF risks than the regulated services that these replace.

3. Over the past decade, Samoa has been subject to de-risking, which has resulted in CBR withdrawals, CBR fragility and rising concentration risks, especially for MTOs. The intensity of

¹ Prepared by Maksym Markevych and Miho Tanaka, with thanks to Siddharth Kothari, Richard Berkhout, the Samoan and New Zealand authorities and the private sector participants. We also thank Rosemary Fielden and Stella Tam for administrative support.

² FATF defines de-risking as financial institutions’ indiscriminate limiting or termination of business relationships with clients or groups of clients to avoid risk instead of managing it.

³ Usually the term CBR is used to describe provision of correspondent services between banks, but in this paper also refers to the provision of bank accounts to MTOs. MTOs typically aggregate and transfer remittances between their bank accounts on both sides of the corridor.

the CBR pressures varies across the Pacific but Samoa has lost around half of its CBRs since 2011.⁴ Approximately 80 percent of inward remittances to Samoa are sent through MTOs, reflecting their advantages in speed, cost and convenience.⁵ The popularity of MTOs is also explained by financial exclusion as many Samoans on both sides of main remittance corridors don't have bank accounts. MTOs report difficulties in maintaining and establishing bank account services in New Zealand and Australia, resulting in fragile connectivity in these remittance corridors. Remittance corridors to Samoa are also facing concentration risks in which one bank provides CBRs to several MTOs. Samoan and regional MTOs and banks also have difficulties in accessing USD correspondent services, primarily used for foreign trade operations, notably imports.⁶ As this paper focuses on remittances, in which the share of USD is around 10 percent and decreasing, the analysis and recommendations focus on mitigating CBR pressures in AUD and NZD.

4. Due to the importance of remittances, CBR pressures have received attention of policymakers globally and in the region. In 2021, the FATF initiated a project to analyze the unintended consequences of the FATF standards, including de-risking and its implications for financial inclusion.⁷ The G20 Roadmap for Enhancing Cross-Border Payments includes a focus area on coordinating and streamlining regulatory, supervisory, and oversight frameworks across jurisdictions. The IMF and the World Bank are leading the work on Building Block 7, "safe payment corridors," which involves development of a framework for remittance corridors' risk assessments⁸ and its pilot application, focusing on streamlining and simplifying AML/CFT measures in line with identified low ML/TF risk. New Zealand and Australia have supported various projects to facilitate the flow of remittances to PICs, including capacity development, private sector outreach as well as conducting innovative targeted risk assessments of remittance corridors to PICs, confirming their low ML/TF risks.

5. This paper provides a targeted analysis of ML/TF risks pertaining to remittances to Samoa, confirming limited risks, and discusses potential opportunities for operationalizing existing remittances risk assessments and streamlining applicable AML/CFT requirements. Section A provides an overview of remittance trends, which largely comprise low-value transfers from Samoans in New Zealand and Australia, and providers in Samoa. Section B presents an analysis of authorities' and the financial sector's risk understanding and publicly available information on

⁴ Bank for International Settlements Committee on Payments and Market Infrastructures, May 2023, Table 11, p.26

⁵ International Monetary Fund, Samoa—Staff Report for the 2023 Article IV Consultation, February 2023, Figure 7, p. 28.

⁶ Two domestic Samoan banks had lost their USD CBRs in 2021, but maintained their NZD and AUD CBRs. The banks secured alternative arrangements through global MTOs to continue USD-based transactions - an unusual arrangement illustrating the pressures on the CBRs of local banks.

⁷ Financial Action Task Force, High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards, October 2021. The FATF is also considering a revision to its Recommendations to promote financial inclusion and conducted public consultation on the proposed changes.

⁸ International Monetary Fund and World Bank, "A Draft Framework for Money Laundering/Terrorist Financing Risk Assessment of a Remittance Corridor," September 2021, <https://www.fsb.org/2021/12/a-draft-framework-for-money-laundering-terrorist-financing-risk-assessment-of-a-remittance-corridor/>

crime and the ML risk environment and concludes that there are limited ML/TF threats to the main remittance corridors to Samoa. Section C reviews targeted ML/TF risk assessments of the remittance corridors to PICs conducted by New Zealand and Australia, confirming the low ML/TF risks from low value remittances to PICs, thus providing an analytical basis for simplifying applicable AML/CFT measures. Section D notes that Samoa's ML/TF vulnerabilities - mostly related to capacity and resource constraints - are alleviated by the low ML/TF threat environment and regional information exchange and capacity building. Section E provides an overview of potential regulatory and supervisory measures to promote a risk-based approach to CBRs to streamline the AML/CFT requirements for low-risk remittances to Samoa.

A. Remittances In Samoa: Trends And Providers

Remittances are macro-critical for Samoa, peaking at over 30 percent of GDP during the pandemic. Remittance costs have largely declined since 2016 but have started to pick up in 2023/2024 and remain well above G20 goals. Only a few commercial banks and MTOs provide most of the remittance services.

6. Remittances play a crucial role in the Samoan economy and are an important source of income for many households. Remittances – money transfers from Samoans living and working abroad to support their families and communities – are highly macro-critical to Samoa. They averaged about 25 percent of GDP before the pandemic and rose to almost 35 percent of GDP in 2022. Around 80 percent of the recipients in FY2023/2024 are households,⁹ providing a crucial source and a large share of their income, with recent reporting showing further increase to 87 percent in October 2024. While smaller in scale, non-profit institutions serving the communities and households, predominantly churches, are another notable group of recipients.¹⁰ In 2020-21, the average value of a remittance transfer received by a Samoan household was approximately US \$200, which represented nearly a quarter of monthly household income; these funds were mainly used for everyday expenses, including food, educational expenses, and health care.¹¹ Remittances also played an important counter-cyclical role in the Samoan economy during the COVID-19 pandemic, when domestic income declined.¹²

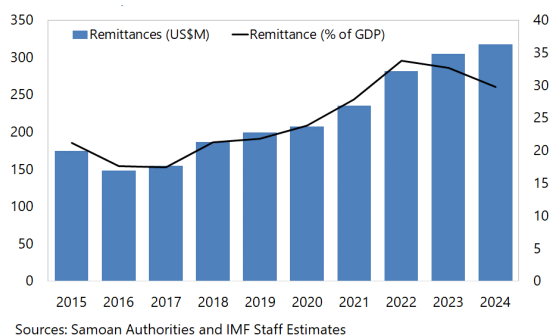
⁹ Annual remittances inflows to families and households accounted for SAT 696.6million out of the total of SAT 877.0million in June 2024 and increased by 5.4 percent compared to the data in June2023.

¹⁰ SAT 77.69 million in June 2024, which increased by 140.5 percent compared to 2023.

¹¹ World Bank Group, "Pacific Labor Mobility, Migration, and Remittances in the Time of COVID-19," 2021, <https://documents1.worldbank.org/curated/en/099120012012113001/pdf/P17163803caa380cd0a1600b18fddbf24d0.pdf>, p.74-75.

¹² For example, remittance inflows into Samoa have increased when GDP declined in 2020-2021, offsetting the absence of tourism earnings and supporting the external position. IMF Samoa 2023 AIV Staff Report, Figure 7; 2024 National Risk Assessment of Samoa; (draft) and International Organisation for Migration, 2024, *World Migration Report*, Chapter 2, <https://worldmigrationreport.iom.int/what-we-do/world-migration-report-2024-chapter-2/international-remittances>

Figure 1. Remittances in Samoa
(in US\$M and in percent of GDP)



7. While the average cost of remittances to Samoa has declined, these are still above the global average and the target set by the G20, in part due to AML/CFT compliance costs. In June 2024, the average cost of sending USD 200 to Samoa was 9.1 percent from New Zealand and 8.3 percent from Australia.¹³ This exceeded the global average of 6.6 percent in the same period,¹⁴ and the G20 target to limit costs of remittance transactions to 5 percent as a maximum in a single corridor and 3 percent on average. While limited economies of scale are an important factor contributing to the elevated costs of remittances in the Pacific, so too are AML/CFT compliance costs. These compliance costs are unnecessary if not justified by the level of ML/TF risk and excessive if measures exceed global AML/CFT standards (e.g., FATF, BCBS) without a proper risk assessment.

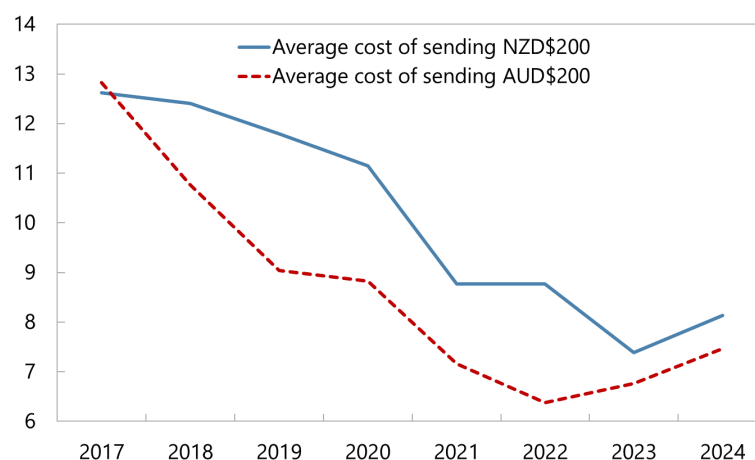
8. Addressing AML/CFT-related frictions (that are the result of an incorrect application of the risk-based approach) when sending remittances has the potential to reduce remittance costs and save scarce supervisory resources. The correct application of the AML/CFT standards by countries and the private sector requires a risk-based approach, including simplified measures in low risk scenarios. Enhanced AML/CFT scrutiny, in excess of what is justified by the level of risk, can also reduce the timeliness of remittances, which are often sent in response to an urgent household or community need. Reducing remittance costs would also increase the value of remittance inflows, benefitting households and the broader economy. For example, at the onset of the COVID-19 pandemic the introduction of fee waivers for transfers to Samoa as well as new Fintech remittance products with low or no fees contributed to the strong growth of remittance inflows in 2020.¹⁵

¹³ Data for Q2 2024 according to the World Bank; July 6, 2024; Remittance Prices Worldwide; <https://remittanceprices.worldbank.org/>

¹⁴ Ibid., March 2024, https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q124_final.pdf

¹⁵ IOM, April 2021, Remittance Inflow Trends Snapshot, https://www.iom.int/sites/g/files/tmzbd1486/files/remittance_inflow_trends_snapshot_web-compressed.pdf

Figure 2. Remittances Cost
(% of Total Funds)



Sources: Samoan Authorities; and IMF staff calculations.

9. New Zealand and Australia are the two main source countries of remittances to Samoa, followed by the United States, reflecting the large migrant communities and seasonal workers from Samoa. In 2023–2024, Samoa received SAT 334 million from New Zealand and SAT 299 million from Australia, amounting to 15 and 13 percent of Samoan GDP, respectively. The remittances from these two countries have risen since 2016/2017,¹⁶ and accounted for 72 percent of total inward remittances in 2023. New Zealand has a large Samoan community due to its historic and cultural ties and citizenship program. As of 2018, 182,721 people of Samoan ethnicity resided in New Zealand,¹⁷ which is a significant size given that Samoa's population is 205,557.¹⁸ Under specialized visa programs for PICs nationals, New Zealand annually grants residency to around 2,000–2,500 Samoan migrants and visas to around 400 seasonal workers and 200 essential workers, although the figures varied by year.¹⁹ As of 2021, Australia had 28,107²⁰ Samoan-born residents, including non-citizens and temporary workers. As of September 2024, under the Pacific Australia Labour Mobility (PALM)

¹⁶ Samoa 2023 AIV Staff Report and 2024 NRA, Figure 7.

¹⁷ Lupematasila Melani Anae, "Samoans," The Encyclopedia of New Zealand, <https://teara.govt.nz/en/samoans/print>

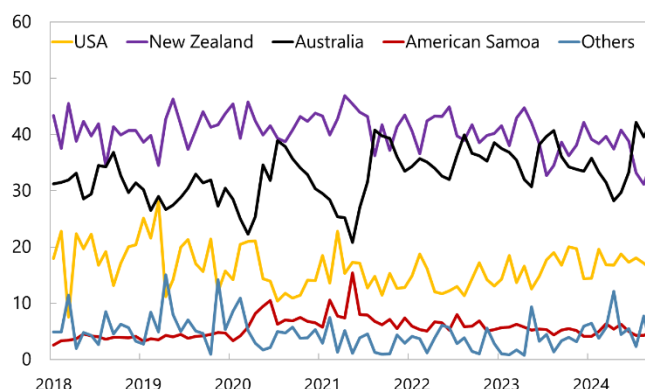
¹⁸ Samoa Bureau of Statistics, Samoa Population and Housing Census 2021, https://sbs.gov.ws/documents/census/2021/Factsheet-Samoa-PHC2021SBS_21112022_v4FINAL.pdf

¹⁹ *New Zealand Immigration, Pacific Migrant Trends and Settlement Outcomes Report*, <https://www.mbie.govt.nz/assets/902b9b1dcc/inz-pacific-migrant-trends-and-settlement-outcomes-november-2018.pdf>

²⁰ The scope of the census includes every person and households in Australia, including non-citizens and temporary workers, excluding travelers from overseas. Australian Bureau of Statistics, 2021 Census Country of Birth QuickStats, People in Australia who were born in Samoa, https://www.abs.gov.au/census/find-census-data/quickstats/2021/1505_AUS

Scheme, which facilitates temporary labor mobility from PICs, 2,745 Samoans participated mainly in the agriculture and meat processing industries as seasonal or longer-term contractual workers.²¹

Figure 3. Remittances by Country of Origin
(in percent)



Sources: Samoan authorities and IMF staff calculations.

Table 1. Samoa: Currency Composition of Remittances

Currency composition	2022	2023	2024
Number of transactions			
Total	1,178,274	1,100,232	809,694
NZD	483,425	206,586	159,706
USD	131,060	123,002	85,734
Share percentage			
NZD	41.0%	39.3%	41.1%
AUD	18.9%	18.8%	19.7%
USD	11.1%	11.2%	10.6%

Source: Samoan Authorities

10. The financial sector in Samoa is limited in size, with four commercial banks and 13 MTOs. The banking sector includes two locally incorporated and two subsidiaries of regional foreign banks that operate across Oceania. In recent years, the share of commercial banks in remittances varied between 9 and 31 percent, and their share is decreasing, with the rest transferred by MTOs, comprising 17 MTOs, 1 Money Changer, 78 MTO branches and 57 MTO agents.²² While larger regional and global MTOs maintain access to a variety of bank accounts, smaller ones have struggled to maintain accounts in remittance-sending countries and in regional bank subsidiaries

²¹ Data as of September 2024. [Australia Labour Mobility, PALM Scheme Data, https://www.palmscheme.gov.au/palm-scheme-data](https://www.palmscheme.gov.au/palm-scheme-data)

²² Central Bank of Samoa.

operating in PICs. Despite CBR pressures, the growing competition among MTOs, including online/digital platforms, has resulted in a decline in remittance costs and an increase in the number of outlets in Samoa for the convenience of customers.

B. Samoa's ML/TF Threat Environment and Implications for The Main Remittance Corridors

The review and analysis of available information indicate low ML/TF risks in the main remittance corridors to Samoa for most transactions, showing: (i) an overall low level of economic crime; (ii) the limited generation of criminal proceeds, mostly in cash and goods, which rarely enter the financial sector; and (iii) that no ML/TF typologies were identified in the main remittance corridors to Samoa. New Zealand and Australia, as advanced economies with favorable investment climate, rule of law and property rights protections, are attractive destinations for integration of criminal proceeds into the formal economy, posing some risks of illicit financial outflows from Samoa. However, these risks appear to be limited to relatively small outflows from Samoa, rather than the much more significant remittances inflows to Samoa.

11. The level of economic crimes and related ML threats are low in Samoa. The overall level of criminality is low, and economic crimes account for a very small share of all reported crimes. Samoa's 2024 National ML/TF Risk Assessment (NRA) finds that the main domestic proceeds-generating crimes (embezzlement, fraud, theft and drug-related offences) present low ML threat to Samoa. As Samoa is relatively free from the influence of cross-border organized crime, the complexity of economic crimes and related ML is limited, as is their impact on other jurisdictions.

12. Drug offences are identified as posing the most significant ML threat, but mostly consist of personal cultivation, possession and consumption. Most of the drug offences consist of possession of cannabis grown domestically, with limited degree of organization and commercialization of drug trafficking. The vast majority of the drug cases do not involve any cross-border elements and only 3.5 percent of cases involve foreign jurisdictions.²³

13. Samoa appears to be isolated from the influence of transnational organized crime groups. The UNODC (2024) notes that the Pacific Islands region as a whole has increasingly become an attractive drug trafficking corridor for cocaine and methamphetamine to New Zealand and Australia, such as from foreign criminal entities such as organized crime groups from Asia and drug cartels from Latin America. But the report also notes that Samoa is one of the PICs that have considerably lower levels of drug trafficking and is not one of the PICs used as a transit hub.^{24, 25} The

²³ During 2015–2020, the period assessed in the NRA, the FIU has disseminated 4 drug-related ML cases to Law Enforcement Agencies– the main typology was depositing a large amount of cash into bank accounts using third parties, and withdrawal of cash in the ATMs abroad (the same method was observed for fraud-related ML).

²⁴ United Nations Office on Drugs and Crime, Transnational Organized Crime in the Pacific: Expansions, Challenges and Impact, https://www.unodc.org/roseap/uploads/documents/Publications/2024/TOCTA_Pacific_2024.pdf, October 2024.

²⁵ Ibid. p. 52

Samoan authorities also noted that Samoa is less vulnerable to being used as a transit hub due to its less attractive shipping and logistics infrastructure.²⁶ Outlaw motorcycle gangs that are active in the Pacific region, including drug distribution in New Zealand and Australia, do not seem to have chapters or charters in Samoa and the authorities note that members of outlaw motorcycle gangs that visit Samoa generally do so for personal reasons. UNODC highlights the risks related to deportees returning to Samoa, some of whom may maintain connections to criminal networks. For further illustration, the Global Organized Crime Index also ranks Samoa 188 out of 194 analyzed countries by the level of criminality, noting also the existence of criminal markets, albeit small, in human trafficking and counterfeit and excise goods.²⁷

14. Identified property-related offences, theft, embezzlement and fraud are mostly of low value and their proceeds rarely enter the financial sector. The proceeds generated by these crimes mostly comprise cash and goods rather than financial assets and the corresponding laundering mostly supports current consumption. Fraud does not pose the highest ML threat to Samoa; the small number of fraud and scamming cases identified have originated from abroad and Samoans are the victims. While the number of these cases is low, the authorities consider that a large proportion of these proceeds is being sent and laundered abroad, including through foreign ATM withdrawals from Samoan accounts rather than using remittances, and not in New Zealand and Australia.

15. Corruption is not identified as a major predicate and is reported to be below regional averages. Control of corruption in Samoa has improved in the last decade and is currently in the top quartile globally.²⁸ According to the NRA, corruption does not constitute a major predicate offence in Samoa that would generate large amount of criminal proceeds and the ML threat from corruption and bribery is medium (relative to other predicates, in the context of overall low ML threat).²⁹ In 2021, around half of surveyed Samoans considered corruption a significant problem, which was lower than the regional average of 61 percent.³⁰ Incidence of voter and public services bribery is 11 and 17 percent respectively, around half of the regional averages of 26 and 32 percent.³¹

²⁶ Samoan LEA succeeded in several seizures of methamphetamine, the largest being of 950 grams and SAT 21,000 in cash and noted that it is consistent with import of limited amount of drugs to Samoa for subsequent domestic sale and consumption.

²⁷ Global Organized Crime Index (a publicly available dataset and tool) <https://ocindex.net/2023>.

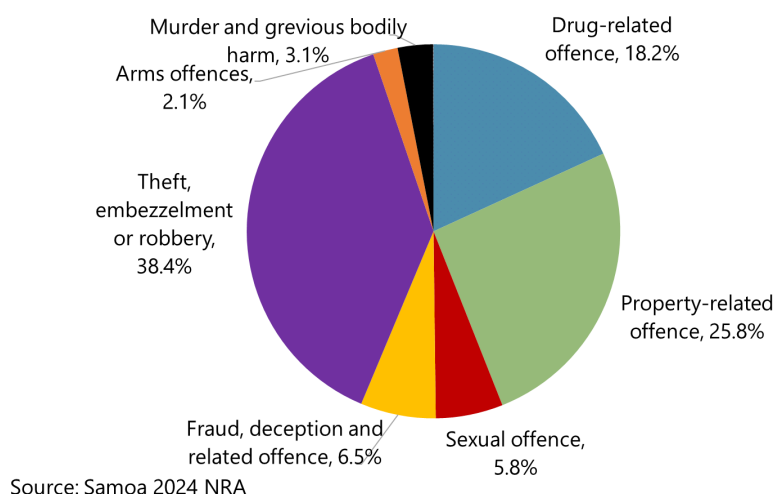
²⁸ Kaufman et al., Worldwide Governance Indicators, <https://www.worldbank.org/en/publication/worldwide-governance-indicators>, 2024.

²⁹ The NRA notes that at higher levels, allegations of abuse of power tend to relate to claims about undue influence on the government's decisions. A case of large-scale corruption was detected and investigate in 2018 amounting to SAT 1.5 million (approximately USD 590,000) and involving multiple jurisdictions.

³⁰ Transparency International, "Global Corruption Barometer—Pacific Region", <https://www.transparency.org/en/gcb>, 2021.

³¹ Ibid.

Figure 4. Breakdown of 7,151 Identified Predicate Offences
(In percent, between July 2015 and June 2020)



16. The NRA concluded that ML threat coming from proceeds of crimes committed outside of Samoa is medium-low. Non-resident services in Samoa's international financial sector are the main driver of the medium-low risk rating of foreign ML risk. While the authorities are not aware of any cases of International Business Companies (IBC) misuse, either domestically or abroad, the NRA concluded that the international services sector poses a high inherent ML threat. There have been a small number of foreign requests for information, but these have not resulted in investigations of IBCs, their beneficial owners, or office-holders. In addition, the NRA notes the ML threat to Samoa from fraud committed abroad, which in most cases relates to Samoan citizens, but the proceeds of foreign fraud do not necessarily enter the Samoan financial sector or use the analyzed remittance corridors.³²

17. The activity in Samoa's international sector mostly consists of the provision of company formation services to non-residents. Almost all activity in Samoa's international sector consists of company registration and administration, as the few offshore financial institutions (1 bank, 7 mutual funds, 4 insurance companies and managers) are reported to be mostly inactive captive financial institutions.³³ Trust and Company Service Providers (TCSPs), which provide company formation services as part of their businesses, are required to conduct customer due diligence (CDD), including identification of beneficial ownership (BO) information of its clients, and the NRA notes too low level

³² Samoa received a total of 37 requests for information and assistance from other jurisdictions including 32 incoming requests to SFIU through Egmont Group and 5 requests for Mutual Legal Assistance (MLA) to Attorney-General's Office between 2015 and 2020, mainly related to fraud and coming from Australia, New Zealand and United States.

³³ Licensing of offshore financial institutions merits a cost-benefit analysis due to perceived financial integrity risks and potential negative impact on CBRs.

of Suspicious Transaction Reports (STRs) from the TCSPs.³⁴ The Samoa International Financial Authority (SIFA), as the supervisor for the international sector, is focusing on verification of the TCSPs' ability to provide BO information and accounting records upon request,³⁵ concluding that the TCSPs are generally effective in obtaining and maintaining beneficial ownership information on IBC.

18. Higher risks in the international company formation business do not currently affect the ML risks in Samoa's cross-border payment corridors, including for remittances. Company formation in Samoa is mostly conducted on the basis of introduction agreements, in which the introducer, a foreign company service provider, is conducting due diligence and the Samoan TCSPs are responsible only for incorporation, while receiving the due diligence materials from the foreign TCSPs. The company formation services by Samoan TCSPs, together with foreign introducers, are focused on customers in Taiwan Province of China, (77 percent), Hong Kong SAR PRC (13 percent), China PRC (6 percent), Singapore (3 percent) and others (1 percent). Only 4,277 out of 34,972 registered IBCs have bank accounts, lowering the direct risk to the financial sector. Moreover, IBCs that have accounts are banking abroad and do not hold accounts or have other linkages to the Samoan financial sector due to the limited risk appetite of banks operating in Samoa. As a result, IBC incorporation services pose limited transactional ML risk to Samoa, especially to the remittance corridors which should not be mixed with any potential reputational risk to Samoa in case of misuse of IBCs abroad for tax evasion, other predicates and related ML that are not relevant to low-value remittance transactions.

19. Samoa is listed by the EU as a non-cooperative jurisdiction for tax purposes, but the designation does not have direct implications on Samoa's transactional ML risks, notably regarding remittances. The list identifies countries that fail to meet the EU standards on tax transparency, fair taxation and implementation of measures to prevent tax base erosion and profit shifting.³⁶ Samoa has been on the list since 2017 due to the preferential tax treatment of offshore companies, which provides IBCs with no economic activity in Samoa with tax exemptions on profits and dividends. To delist, the authorities are developing legislative amendments to implement the EU standards' principle of fair taxation, adding the economic substance requirement, aimed at ensuring that the profits registered are commensurate with the economic activities and presence of IBCs in Samoa. In addition, SIFA is strengthening efforts to continue implementation of the Automatic

³⁴ The SFIU received 7 STRs from TCSPs in 2015-2020, representing 1.9 percent of overall STRs. NRA (2024) expressed concern on the low level of STRs, which may indicate TCSPs low level of understanding of AML/CFT obligations and an absence of effective ongoing due diligence procedures. Between 2015-20, SIFA has identified, through onsite inspections, non-compliance with statutory reporting obligations (27 violations), failure to obtain prior approval for the change of shareholder (1 violation) and failure to make available the beneficial ownership information or accounting information on IBCs (42 violations) and imposed sanctions.

³⁵ SIFA has inspected 4,810 international companies, representing 16.9 percent of active international companies as of December 31, 2023. Source: SIFA (response to the questionnaire).

³⁶ Countries on the list are subject to EU's coordinated administrative measures (e.g., enforced monitoring of certain transactions) of and its members' legislative measures to encourage positive changes to the listed jurisdictions (e.g., non-deductibility of costs involving entities / persons in the listed jurisdictions). Listing could also potentially affect foreign direct investment. World Bank (2024), p. 35.

Exchange of Information Standard.³⁷ While reputational risk from the EU listing is potentially a factor contributing to CBR pressure,³⁸ the listing itself does not reflect Samoa's cross-border transactional ML risks or relate to remittances.

20. Samoa's TF risks and the risks of misuse of remittance corridors for TF are assessed as low. The 2024 NRA assesses terrorism and terrorism financing threats as low, with no instances of terrorism cases and STRs, investigations and MLAs pertaining to TF. Samoa's demographic composition is not seen as susceptible to raising the funds for TF purposes and no threats of inflows to finance terrorist activity in Samoa were identified. As Samoa's financial sector does not facilitate financial flows between other countries, the risk from the transit of funds for TF purposes is limited. Similarly, AUSTRAC (2019) assesses the threat of TF through remittance providers to the Pacific, including Samoa, as very low. In the 2016-17 sample period, there were no Suspicious Matter Report (SMRs) regarding suspected TF, and no customers who remitted funds to PICs through remittance providers were identified in AUSTRAC databases as TF high-risk.

C. Remittance Subsector Risk Assessments by The Main Remittance Source Countries

Recent ML/TF risk assessments of the remittance corridors to PICs, conducted by New Zealand in 2021 and Australia in 2017, provide a granular risk understanding, leveraging extensive statistics including on cross-border payments, as well as supervisory, law enforcement and financial intelligence experience. These risk assessments confirm low ML/TF risk and can serve as the analytical basis for simplifying AML/CFT measures in line with the identified low risks, as required by international standards.

21. The understanding of low risk is also supported by the results of targeted ML/TF risk assessments of remittances from Australia to PICs. A risk assessment conducted by AUSTRAC, based on extensive data from 2016 and 2017, concluded that remittances sent via MTOs to PICs pose low risk. In particular, the assessment confirmed that it is unlikely that ML is occurring on a large scale through the Australia-Samoa corridor, given the median value of remittances in this corridor was AUD 200, and that the vast majority of suspected ML reports amounted to less than AUD 5,000.³⁹ This risk assessment analyzed the following key areas: (i) the criminal threat environment (low risk); (ii) the profile of customers sending funds (low risk); (iii) the profile of the transactions being sent (medium risk); (iv) the purpose of those remittances (low risk); and (v) detection, and mitigation measures in place by the remittance providers (medium risk). This risk assessment also noted the low likelihood and the limited scale of illicit proceeds passing through the assessed corridors. While this assessment was conducted several years ago, there are no

³⁷ Samoa International Finance Authority, 2022 Annual Report, 17th edition, <https://www.sifa.ws/assets/Uploads/SIFA-ANNUAL-REPORT-2022-English.pdf>, p. 21. Tax deficiencies identified by the EU (based on ECOFIN conclusions of 08.10.2024). European Commission, Tax and Customs Union, [8d7007bc-7eaa-4a39-b8b5-b72c5849a3f7 en](https://ec.europa.eu/taxation/customs/8d7007bc-7eaa-4a39-b8b5-b72c5849a3f7_en)

³⁸ Samoa 2023 AIV Staff Report, p. 19.

³⁹ AUSTRAC "Remittance Corridors: Australia to Pacific Island Countries;" February 1, 2016 to January 31, 2017; [remittance-corridors-risk-assessment.pdf](https://www.austrac.gov.au/remittance-corridors-risk-assessment.pdf) p. 17.

indications of the appearance of new threats or material changes in the risk level that would render it outdated.

22. In 2021, New Zealand's Department of Internal Affairs conducted a detailed ML/TF sub-sector risk assessment of remittance corridors to PICs. This risk assessment concluded that while the overall level of inherent ML/TF risk for the New Zealand to PICs remittance sub-sector is medium, low value (under NZD 1000) remittance transactions to PICs from the diaspora or seasonal workers for family support, and familial or cultural events, are assessed to be of low inherent ML/TF risk. The sub-sector risk assessment highlighted that this conclusion was also supported by the New Zealand supervisory experience, comprehensive Australian data, and research jointly undertaken by the New Zealand Ministry and Australian Department of Foreign Affairs and Trade.⁴⁰ The summary of findings included:

- **Nature, size and complexity of the sector:** A small number of single country focused money remitters in the New Zealand-to-Pacific remittance corridor tend to have simple business arrangements. Agents tend to have ongoing seasonal business relationships with Pacific Island diaspora and seasonal workers sending funds home for family support, familial or cultural events.
- **Products and services:** High-risk factors, as identified in the Financial Institutions SRA, were present in the New Zealand-to-Pacific remittance corridor. The high-risk included international payments and the use of cash and new payment technologies. However, the report recommended the nature of these high-risk factors be considered in the context of the New Zealand-to-Pacific remittance corridor. While international payments are prevalent, the amounts are typically lower value and lower risk for family support, familial or cultural events.
- **Methods of delivery:** Most customers in the New Zealand-to-Pacific corridor undertook money remittance through lower risk face-to-face means. While the use of cash, a higher-risk factor, was common for customers in the corridor, research indicated a heavy reliance on cash was necessary due to the low penetration of payment instruments in PICs.
- **Customer base:** Most customers were lower-risk New Zealand-based individuals representing diaspora and seasonal workers.
- **Country risk:** Generally, PICs were low risk jurisdictions and most remitters in the New Zealand-to-Pacific corridor were specialists that only serviced one PIC. While various threats from serious and organized crime groups have in the past been identified in relation to PICs,⁴¹ no significant trends or patterns of misuse of the remittance sector were detected.

⁴⁰ The subsector risk assessment refers to unpublished DFAT/MFAT sponsored research undertaken during 2019.

⁴¹ The New Zealand subsector risk assessment referred to the UNODC identification of the four main threats to the Pacific Islands from transnational organized crime groups - drug and precursor trafficking, human trafficking and

(continued)

- **Counterparty institutions:** Apart from banks, MTOs in the corridor to PICs generally had limited exposure to dealing with other financial institutions or designated non-financial business or professions. Some had business relationships with other money remitters and sometimes currency exchanges. Overall, the risk associated with these institutions was assessed as low when compared to the wider remittance sector.

23. This nuanced understanding of ML/TF low risk level specific to the low value PICs' remittance corridors is particularly important as it differs from the general understanding of the overall level of risk in the MTO sector. Australia's 2024 NRA rated the overall ML/TF vulnerabilities associated with registered MTOs as 'high' and unregistered MTOs as 'high' and 'increasing'. Australia's NRA also presents ML techniques involving remittances, including a recent case where a registered MTO was controlled by a criminal group and facilitated the movement of criminal proceeds amounting AUS \$229 million. New Zealand's 2019 NRA and the Financial Institutions Sector Risk Assessment also identified 'high' inherent ML risks of money remittances sector and highlighted the risks from illicit flows going through the MTOs. However, as outlined above, these considerations are not/less applicable in the PICs corridor.

D. Samoa's ML/TF Vulnerabilities

The AML/CFT regime in Samoa contains vulnerabilities, mostly related to capacity and resource constraints. However, these vulnerabilities are alleviated by a small population facilitating CDD, a low ML/TF threat environment and by regional cooperation, information exchange and capacity building.

24. The ML/TF vulnerabilities of the banking sector in Samoa are reduced by the application of group-wide policies by prominent regional banks and AML/CFT supervisory efforts. Two subsidiaries of foreign banks, which account for around 61 percent of banking sector assets, apply group-wide AML/CFT programs and are also under AML/CFT supervision of the home jurisdiction (Australia and Papua New Guinea). The two local banks have high awareness of AML/CFT requirements due to the continuous CBR challenges and associated need to demonstrate an effective AML/CFT program to their Australian and New Zealand correspondent banks. While the capacity and effectiveness of AML/CFT supervision in Samoa can be further strengthened, the vulnerabilities of its financial sector are decreased by most of the financial activity being conducted by banks with developed group-level AML/CFT systems and controls as well as supervised by an advanced country with higher capacity.

25. While MTOs' AML/CFT controls are less robust, they have improved. The remaining AML/CFT challenges facing MTOs are related to the large number of customers and limited time allocated for CDD. However, the low ML/TF risks from low value remittances and the customer base (remitters) ameliorates vulnerabilities arising from these remaining challenges. The CBS/SFIU AML/CFT supervision is focusing on the areas in line with the findings of the NRA: customer due

smuggling of migrants, environmental crimes, and small arms trafficking. However, the UNODC has not identified significant involvement by serious and organized crime groups in remitting funds through money remitters in the New Zealand-to-Pacific remittance corridor.

diligence and transaction monitoring of outward and inward transfers, as well as politically exposed persons (PEPs) and high-risk individuals. All inspected MTOs have AML/CFT policies, procedures and systems in place, but with weaknesses in CDD measures and on-going monitoring, as well as record keeping. No significant cases of non-compliance have been found during on-site inspections, although the number of inspections of banks and MTOs is constrained by the SFIU staffing (6 staff conducting both supervisory and financial intelligence work).

26. The customer base and the geography of activity of the financial sector in Samoa is assessed to be lower ML/TF risk. Physical persons residents of Samoa account for between 90 and 99 per cent of financial institutions' clients. The small share of non-residents mostly comprises foreign citizens of Samoan descent who maintain links to Samoa. The countries of non-residents' citizenship are: New Zealand (40 percent), Australia (30 percent), Fiji (10 percent), United States (10 percent) and China (10 percent). As a result, while the NRA expresses concerns related to the ML risks from non-resident customers, a subsidiary of the regional bank noted that 80 percent of non-resident customers (or 7.4 percent of total customers) are classified as low risk. The share of PEPs in the customer base is 10 percent, which might reflect an (over-)extensive application of PEP requirements⁴² in the context of a small state combined with a low-risk appetite. Most of the cross-border transactions are with New Zealand and Australia (40 percent each), China (10 percent), Fiji and the United States (5 percent each). Samoa's two local banks do not have subsidiaries and branches in other countries and do not conduct any material activity abroad.

27. The delivery channels for remittances are characterized by high share of cash and face-to-face transactions. While the heavy use of cash (95 percent for MTOs) is an AML/CFT vulnerability, some of the MTOs leverage technology to facilitate cashless remittances through applications for mobile cash and online wallets linked to bank accounts. The delivery channels for remittances are mostly in-person in bank branches and MTO agents, facilitating identification of the customers and lowering ML/TF risks. Due to the CBR challenges most of the local MTOs have partnered with global MTOs, providing an additional layer of AML/CFT scrutiny for remittance flows. All customers of MTOs are subject to customer identification / CDD measures, regardless of the transaction level. This further mitigates ML/TF risk, below what is required based on a global risk understanding in the standards (e.g., comparing the low average transaction level for incoming remittances of USD 200 as noted above, to the thresholds in the international standards for cross border wire transfers of USD 1,000)

28. The vulnerabilities in domestic AML/CFT capacity are mitigated by supervisory, law enforcement and financial intelligence regional cooperation, information exchange and capacity development. Samoa benefits from various initiatives led by or with participation of the advanced economies in the region, particularly benefiting the law enforcement capacity. For

⁴² Requirements for PEPs apply equally to family members and close associates, who are not PEPs but should be treated as PEPs according to the standards. However, in small societies the application of such standards is challenging as it may quickly affect a too large proportion of the population. Financial institutions that apply such measures should consider the social-economic and cultural structure of the country, which among others implies that the social cohesion often found in small societies is a mitigating factor that should limit the number of identified PEPs. See also the FATF Guidance on PEPs (2012).

example, Samoa hosts the Pacific Transnational Crime Network that coordinates and analyzes criminal intelligence in the Pacific, with a focus on countering drug and small arms smuggling and related money laundering. In the latest mutual evaluation report, Samoa was rated as substantially effective in international cooperation.⁴³ While the current criminal environment might not require advanced capacity for ML risk mitigation, building up law enforcement and financial intelligence capacity would allow for proactive identification of emerging threats. No ML investigations and prosecutions have been achieved to date, and the amount of proceeds generated in most investigated cases may not warrant a parallel financial investigation. However, even in low risk environment, having the capacity, mechanisms and practice of ML investigation would allow for a more effective response to potential threats and individual high-value predicate cases.

29. The legal and regulatory frameworks in Samoa contain several deficiencies relevant to CBR pressures. The Money Laundering Prevention Act (MLPA) should be amended to add powers for supervisory authorities which would enable implementation of a risk-based AML/CFT supervision, including sanctioning powers. The definition of PEPs should also cover domestic PEPs in addition to the foreign PEPs (in practice banks conduct EDD for both domestic and foreign PEPs due to group-wide policies or correspondent bank expectations in the case of the local banks), while banks should at the same time reduce the number of clients classified as PEPs. The BO definition should also be brought in line with international standards. The authorities are working on amendments to the MLPA to fill these gaps with help from IMF TA.

E. Streamlining AML/CFT Requirements In Remittance Corridors

This section provides an overview of regulatory and supervisory measures that could be taken to promote a risk-based approach to CBRs, operationalizing existing risk assessments and streamlining AML/CFT requirements. The Samoan authorities should consider the provided recommendations in cooperation with the main remittance source countries: New Zealand and Australia. Cooperation with supervisory and regulatory authorities of New Zealand and Australia on implementing the recommendations is also important due to their role as home jurisdictions of regional correspondent banks.

30. Australian and New Zealand experiences suggest that risk assessments identifying low ML/TF risks from remittances need to be further operationalized. Publication of AUSTRAC and DIA risk assessments did not address the de-banking of Pacific MTOs, as banks continue to refer to a low-risk appetite when dealing with MTOs in general. The small size of the Pacific Islands' MTO markets and their limited profitability does not incentivize the implementation of a granular risk-based approach to MTOs, distinguishing (i) the MTOs that operate exclusively in low ML/TF Pacific remittance corridors from the general high risk of the MTO sector as a whole; as well as (ii) the risks posed by a specific corridor as opposed to the overall risk profile of a jurisdiction. A correct application of the risk-based approach should instead take into account sectoral, geographic,

⁴³ Samoa received and responded to a total of 37 requests for information and assistance from other jurisdictions including 32 incoming requests to SFIU through Egmont Group and 5 requests for MLA to Attorney-General's Office between 2015 and 2020, mainly related to fraud and coming from Australia, New Zealand, and the United States.

transactional and customer risks, rather than applying one risk-rating for all MTO business. In addition, heightened concerns about the reputational risks and potential enforcement action arising from a case of a financial integrity breach (unrelated to low risk MTOs) have reportedly had a chilling effect on the willingness of banks to understand and manage perceived ML/TF risk in the region.⁴⁴ Further efforts to provide regulatory certainty and communicate supervisory expectations would be helpful to inform banks' approaches to CBRs, and authorities on both sides of remittance corridors should consider working together closely to integrate the results of remittance risk assessments into regulatory and supervisory frameworks.

31. Further supervisory guidance on providing banking services to MTOs in low risk remittance corridors might be helpful to ensure clarity on the supervisory expectations. The significant differences in risk levels between the overall MTO sector and the low risk remittances to PICs identified above, require a different approach to AML/CFT measures for remittance transfers to PICs, and for MTOs operating exclusively with PICs. Communication and guidance on the provision of bank accounts to MTOs operating in low risk remittance corridors by Australian and New Zealand supervisors, including specifically in relation to Samoa, could help to promote a risk-based approach to CBRs, as regional supervisory expectations are particularly shaped by these supervisors. However, the experience in the Pacific region indicates that only issuing guidance to banks on the risk-based approach to providing account services to MTOs has not materially reduced the MTO debanking. As a result, we recommend promoting a risk-based approach to low-risk remittances in prescriptive regulations rather than only with guidance aimed at providing clarity on the banks' obligations.

32. As supervisory guidance is sometimes perceived by banks as lacking the weight of a binding legal instrument, the authorities might also consider translating their risk assessments into regulatory certainty. While the decision to open a bank account is a commercial banking decision, incorporating the findings of the Australian and New Zealand regional risk assessments conducted by AUSTRAC and DIA into binding regulations that spell out the intensity and extent of AML/CFT measures that should be applied might provide additional certainty to banks. For instance, specific references could be made to the definition of low risk remittance markets and MTO transaction types, which can be linked to the authorities' risk assessment findings. MTOs that fall within these definitions could then be onboarded as customers of banks to support the settlement of transactions (despite their general higher risk), and these MTOs could also apply simplified due diligence measures for certain transaction types (e.g., low value person-to-person transactions to Samoa). For example, the application of simplified CDD measures can also be described and interpreted in codes of practice, which has a benefit of providing a defense against charges of non-compliance if followed correctly and fully.

⁴⁴ AUSTRAC imposed AUD 1.3 billion penalty, the highest civil penalty in Australian history, on a prominent bank. The identified compliance failings were related to International Funds Transfer (transfers above AUD 10 000), assessing risks of fund movements through the correspondent accounts, including with known higher risk countries and suspicious transactions associated with possible child exploitation.

33. At a more granular level, based on the risk assessments, regulators in Samoa, Australia and New Zealand could approve the following products or services: (i) low-risk remittance transfer to PICs, and (ii) the specific bank account for an MTO that operates in a low-risk corridor.

34. Low-risk/low-value remittance product: a prescribed set of simplified, core CDD requirements, including exemptions from certain AML/CFT obligations for low-risk/low value remittances to Samoa, as set out by AML/CFT supervisory authorities for banks and MTOs from both sides of the corridor. However, simplified CDD shouldn't be permitted in case of suspicion of ML/TF.

- In line with the findings of the DIA sub-sector risk assessment, this would be limited to person-to-person transfers of low value (e.g. 1 000 NZD or an equivalent). The product design could also include caps on the annual or monthly limits on the overall value of remittances sent by a single customer to prevent structuring of a larger transfer into multiple payments below the threshold. This would limit the ongoing monitoring requirements to ensuring turnover in individual customer accounts falls below certain thresholds.
- The authorities could also list a broad set of reliable documentation required for customer identification. In addition to a passport or other government-issued identification document, low risk and low value remittance transfer should not require further identity verification, for example, requesting to provide secondary identification documents, or source of fund or source of wealth checks. Regulations should also provide certainty as to what other documentation would be acceptable to establish a customer's identity, using other reliable, independent source documents, data or information (e.g., expired foreign ID, consular document, bills, tax certificates, healthcare documents). These are important considerations for low-income migrant workers that often lack access to standard identification documents.
- In line with the FATF Standards for low risk products, the low risk remittance product design should not include additional requirements in excess of the standards (e.g., address when other information is available,⁴⁵ income, occupation, and identification documentation).
- To support technological innovations, the authorities might consider measures to promote non face-to-face identification for this remittance product, particularly if the source of the remittance is a bank account rather than cash.
- The intended usage and purpose of transfer of the basic remittance products can be assumed to be for family/community support resulting in no need for source of funds and source of wealth checks.

⁴⁵ AML/CFT standards do not require an address for general customer due diligence (e.g., account opening), and not for the beneficiary of incoming cross-border transactions, and for the originator of cross-border transactions only if other information is not available (such as the originator's national identity number, or customer identification number, or date and place of birth). While asking for an address can be a routine CDD requirements in countries over and above the standards, it puts customers at a disadvantage in countries where street names and numbers and zip codes are non-existent or not needed. See also FATF Guidance on Financial Inclusion (2017).

35. Bank accounts for MTOs operating in low-risk corridors: regulatorily prescribed streamlined AML/CFT requirements could be established for opening and maintaining correspondent-type bank accounts providing settlement services for MTOs, applying only to the remittance transfers in low risk corridors, issued by AML/CFT supervisory authorities for banks from both sides of the corridor.

- As the risk level of remittances differs between the inflows to and outflows from Samoa, the low-risk measures might be allowed only for inflows to Samoa, and for supervisory and monitoring purposes be kept separate from the account for payments out of Samoa, which carry a higher risk. As the flow of remittances is not balanced, with remittances overwhelmingly flowing to Samoa, the netting of the balances is limited and the main need of MTOs is the ability to transfer the funds from the source country to Samoa, which could be facilitated by this special account.
- To ensure limited potential for material ML risks, the regulator could initially impose caps on the account balance and the overall turnover in this type of MTO account.
- The onboarding risk assessment of the respondent MTO could focus on ensuring that the MTO operates only in the low risk corridor(s) and that its customer base and the value of transactions is already broadly in line with the low risk remittance product, and that the MTO has the capacity to operate strictly within the parameters of low risk remittance product. This will differentiate the provision of bank account services to these MTOs from the regular higher risk MTO bank customer that requires enhanced due diligence.
- The scrutiny of the MTO's AML/CFT program by the banks providing the bank account for the low-risk remittances should focus on the relevant core required CDD requirements, such as customer identification, record keeping, transaction screening to prevent structuring. This allows for a less costly onboarding of MTOs and is in contrast to the much broader set of comprehensive policies and procedures required for MTOs with higher risk transactions and customers.
- Limiting the provision of remittances by MTOs to natural persons, excluding any type of legal persons and arrangements, further simplifies the regulatory requirements (e.g., no need to implement beneficial ownership of legal persons and arrangements requirements).
- Existing regional risk assessments that identify low risks for low-value remittance transactions provide a comprehensive and sufficient source of risk understanding and can be used as the basis of risk assessments by banks that provide MTOs with bank accounts, and by MTOs themselves. Explicitly allowing banks and MTOs to incorporate these into their own risk assessments can reduce the resources needed by banks and MTOs, and provide regulatory certainty based on a common understanding of what is acceptable low risk.

- As part of CDD, the banks are required to obtain information on the nature and purpose of the proposed business relationship, which for this low risk MTO account should not require collecting specific information and carrying out additional measures.
- Banks can limit the ongoing monitoring of the account to be less frequent and less intense than standard correspondent accounts, focusing mostly on ensuring that the MTO activity is strictly within the low risk remittance product.

36. Closer cooperation and information exchange between AML/CFT supervisors can further reduce risk, provide regulatory certainty and reduce costs. To facilitate onboarding of MTOs by banks, AML/CFT supervisors might consider conducting a special on-site inspection for the MTOs that are interested in the low risk remittance product, to ensure that the required core AML/CFT controls are in place, the activity is strictly low risk, and the management passes basic fit and proper tests. In light of the fact that the current MTO registration regimes in Australia and New Zealand do not include more in-depth licensing arrangements (including fit and proper tests), these inspections may provide an additional reassurance to banks to provide correspondent-type bank accounts to MTOs. The on-site inspections could potentially be conducted jointly by both Samoan and New Zealand and Australian supervisors of the MTOs, but also of the banks. Furthermore, supervisory authorities might consider establishing AML/CFT or deepening existing supervisory colleges for the banks and MTOs providing the low risk remittance product.

37. Enhanced cooperation can also promote AML/CFT regulatory and legislative harmonization. Existing legal differences, for example in definitions, reporting thresholds, and preventive measures, create additional unnecessary frictions for cross-border payments including remittances. The project can build on the experience of a remittance-sending mechanism facilitated by the Tonga Development Bank and supported by Australia and New Zealand as well as the International Finance Corporation⁴⁶, which significantly cut the costs of sending remittances to Tonga and is currently used by more than 95 percent of Tongan seasonal workers in New Zealand.

38. The recommendations should be considered in the context of broader national objectives to address the unintended consequences of MTO de-banking. The application of regular or enhanced risk-mitigating measures to remittance corridors with low ML/TF risks not only increases costs, but also leads to unintended AML/CFT-relevant consequences. Higher barriers to entry for MTOs reduce competition and increase the costs, making informal remittance channels, such as hawala-type networks, cash couriers, and barter exchanges, more attractive. This shift to informal remittances mechanisms increases ML/TF risks, undermines the effectiveness of AML/CFT regime, and introduces additional difficulties in detecting, tracing, and confiscating proceeds of crime and funds intended for terrorists. Notably, New Zealand's 2019 NRA noted that de-risking may increase ML risk by forcing remittance businesses underground and displacing money remittance customers to higher risk alternative remittance operators, which may increase the size of higher risk channels and the value of money remittance occurring in non-regulated sectors creating

⁴⁶ [Ave Pa'Anga Pau remittance voucher—EUDiF](#)

opportunities for money launderers and terrorist financiers.⁴⁷ Due to the critical role of remittances, addressing the CBR pressures on remittance service providers should be also considered in the context of achieving national objectives in the areas of social, labor, and foreign policies.

⁴⁷ [fiu-nra-2019.pdf](#), p51.