



Australian Government
AUSTRAC



Australian Government
Department of Foreign Affairs and Trade

REMITTANCE CORRIDORS: AUSTRALIA TO PACIFIC ISLAND COUNTRIES >>>

MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT

PRODUCED BY AUSTRAC, WITH SUPPORT FROM THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

REMITTANCES SENT FROM AUSTRALIA TO PACIFIC ISLAND COUNTRIES

FROM 1 FEBRUARY 2016 TO 31 JANUARY 2017

Note: This risk assessment analyses risks only in relation to remittance providers servicing the Pacific. Figures on banks are provided here for context purposes only. AUSTRAC notes that remittances through banks are considerably different in nature and purpose.

INTERNATIONAL FUNDS TRANSFER INSTRUCTIONS (IFTIs)



FACILITATED BY REMITTANCE PROVIDERS

23
remittance
providers



76,069 customers
(\div = 5,000)

4.5% of all Australian remittances globally



\$175 M
in value (\div = \$100 M)

\$387 average value of remittance

0.6% of value of all Australian remittances globally

451,133 remittances



FACILITATED BY BANKS*

24
banks



21,796 customers
(\div = 5,000)

0.2% of all Australian remittances globally



\$2.5 B
in value (\div = \$100 M)

\$23,344 average value of remittance

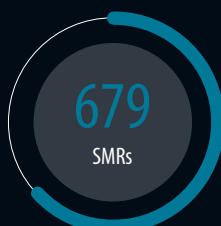
0.1% of value of all Australian remittances globally

102,988 remittances

SUSPICIOUS MATTER REPORTS (SMRs)



SUBMITTED BY REMITTANCE PROVIDERS

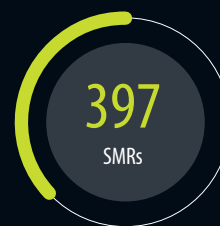


8

remittance providers
submitted at least
1 SMR



SUBMITTED BY BANKS



22

banks
submitted at least
1 SMR

* Data under 'IFTIs facilitated by banks' includes remittances processed by remittance providers for which banks then conduct the international funds transfer. See explanation of IFTIs in 'Key terms'.

CONTENTS

KEY TERMS	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
PURPOSE AND SCOPE	8
METHODOLOGY	9
REPORTING TO AUSTRAC	10
01/ CRIMINAL THREAT ENVIRONMENT	14
Money laundering	16
Terrorism financing	17
Predicate offences	18
Suspicious behaviour	18
Involvement by serious and organised crime groups	19
02/ CUSTOMER PROFILE	20
Customer type	20
Politically exposed persons (PEPs)	21
Agents of customers	21
03/ TRANSACTION PROFILE	22
Transaction values	22
Number of transactions	24
Use of cash	25
04/ PURPOSE OF REMITTANCE	26
Support to family and community	26
Business remittances	28
05/ DETECTION & MITIGATION	29
AML/CTF obligations	29
Systems and controls	29
CONCLUSION	31
APPENDIX A: Risk assessment methodology	32
APPENDIX B: Additional tables and graphs	34

KEY TERMS

REPORTS SUBMITTED TO AUSTRAC

INTERNATIONAL FUNDS TRANSFER INSTRUCTIONS (IFTIs)

Reports submitted to AUSTRAC by the sender of an IFTI transmitted out of Australia, or the recipient of an IFTI transmitted into Australia. Reported under section 45 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act). There are two categories of IFTIs:

- instructions given or received under a 'designated remittance arrangement' (IFTI-DRA), generally through remittance providers (non-financiers)¹
- international electronic funds transfer instructions (IFTI-E), generally conducted by banks or other financial institutions.

This risk assessment only analyses IFTI-DRA's, but the term 'IFTI' will be used throughout this assessment for ease of reading. For further information, see [Chapter 7 of the AUSTRAC compliance guide](#).

SUSPICIOUS MATTER REPORTS (SMRs)

Reports in relation to suspicious matters, submitted to AUSTRAC under section 41 of the AML/CTF Act. A reporting entity must submit an SMR if they form a reasonable suspicion of money laundering, terrorism financing or a predicate offence such as fraud or tax evasion. For more information on when to submit an SMR, see section 41 of the AML/CTF Act and Chapter 7 of the [Chapter 7 of the AUSTRAC compliance guide](#).

THRESHOLD TRANSACTION REPORTS (TTRs)

Reports submitted to AUSTRAC in relation to transactions conducted with cash amounts of \$10,000 or more. Reported under section 43 of the AML/CTF Act.

REMITTANCE SECTOR

DESIGNATED REMITTANCE SERVICE

A designated remittance service is the transfer of money or property from an ordering customer, to pay an equivalent value to a beneficiary customer, commonly in another location. This transfer may be done outside the formal financial and banking system. A designated remittance service involves at least one party being a non-financier. Designated remittance services relate to items 31, 32 and 32A in table 1 of section 6 of the AML/CTF Act.

REMITTANCE PROVIDER

'Remittance provider' is the term used in this risk assessment to refer to non-financiers that provide a designated remittance service. This may be a remittance network provider (RNP), an affiliate of an RNP, or an independent remittance dealer.

This risk assessment applies only to remittance providers registered on AUSTRAC's Remittance Sector Register (RSR). It is an offence to provide designated remittance services if an individual or business is not registered with AUSTRAC. For more information please see the [AUSTRAC website](#).

The remittance providers servicing Pacific Island countries range in size from sole traders and small companies—usually serving particular migrant communities—to global multinationals. Some provide remittance services to all Pacific Island countries, while some only remit to one Pacific country (see Appendix B, Figure 14).

REMITTANCE NETWORK PROVIDER (RNP)

An RNP is a business that operates a network of affiliates that provide a designated remittance service to customers of the network. An RNP is responsible for providing a platform on which its affiliates can operate. An RNP also has responsibility for providing affiliates with AML/CTF programs, and for reporting all required reports to AUSTRAC on behalf of the affiliate.

¹ **Non-financier** means a person who is not an authorised deposit-taking institution, or a bank, or a building society, or a credit union, or a person specified in the AML/CTF Rules (which is currently 'a person carrying on an accounting practice and a person carrying on a law practice').

AFFILIATE

An affiliate is a business that provides a designated remittance service as a part of a remittance network, under contract and using the name and branding of the RNP. Affiliates generally use a platform and AML/CTF program provided by the RNP, and may receive a commission from the RNP. An affiliate may submit an SMR to AUSTRAC independently of their network provider.

INDEPENDENT REMITTANCE DEALER

An independent remittance dealer is a business that provides a remittance service to its customers through the use of its own network and systems. The business is responsible for all operations relating to the provision of a designated remittance service.

PACIFIC ISLAND COUNTRIES

PACIFIC ISLAND COUNTRIES (PICs)

Refers to the following 14 countries that are the subject of this assessment: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

This risk assessment is intended to provide a summary and general overview; it does not assess every risk or product relevant to remittances to Pacific Island countries. It does not set out the comprehensive obligations under the AML/CTF Act, AML/CTF regulations and AML/CTF Rules. It does not constitute nor should it be treated as legal advice or opinions. The Commonwealth accepts no liability for any loss suffered as a result of reliance on this publication. AUSTRAC recommends that independent professional advice be sought.

EXECUTIVE SUMMARY

OVERALL RISK RATING



For remittances sent through remittance providers from Australia to Pacific Island countries, AUSTRAC assesses the overall money laundering and terrorism financing (ML/TF) risk is **low**. This rating is based on assessments of the criminal threat environment, the profile of customers sending funds, the profile of the transactions being sent, the purpose of those remittances, and the overall detection and mitigation controls in place by Pacific remittance providers.

This assessment relates to the current level of risk. However, being a dynamic environment, risk levels may change over time. The risk rating applies to each of the 14 remittance corridors examined in this assessment. AUSTRAC did not discover any significant risk differences between them.

This report does not assess remittances sent by banks, remittances sent to countries other than PICs, remittances sent from PICs to Australia, or carrying physical cash to or from PICs. AUSTRAC expects that the level of risk may differ for other remittance scenarios.

CRIMINAL THREAT ENVIRONMENT



AUSTRAC assesses that there is a **low** level of criminality associated with remittances sent through remittance providers to the Pacific. This is based on:

- the lower number of Suspicious Matter Reports (SMRs) relating to Pacific remittances compared to the global average of SMRs relating to remittances
- the lower likelihood that customers remitting to the Pacific are involved in criminal activity compared to the global average
- the low level of criminal intelligence reporting regarding Pacific remittances.

AUSTRAC analysed four main suspected offence types relating to Pacific remittances, based on SMRs and other intelligence sources (from 1 February 2016 to 31 January 2017).

- Suspected money laundering accounted for 14 per cent of SMRs; however, there was minimal indication of large-scale money laundering.
- There were no reports relating to suspected terrorism financing. Moreover, no customers who remitted funds to

PICs through remittance providers over the last year were identified in AUSTRAC databases as high-risk entities for terrorism financing.

- The two main types of suspected predicate offences reported in SMRs were scams (five per cent of SMRs) and concerns around customer identification (four per cent of SMRs).
- The vast majority (76 per cent) of SMRs described suspicious behaviour by the customer, but in most cases there was no clear suspected offence. AUSTRAC assessed these SMRs to be of low intelligence value.

AUSTRAC did not observe any significant involvement of serious and organised crime (SOC) groups remitting funds through remittance providers to the Pacific. The general absence of high-value remittances and the lack of sophisticated criminal tactics and methods also indicate that large-scale or serious financial crimes are unlikely to be taking place through these remittance corridors.

AUSTRAC also determined that no customers who remitted funds to PICs through remittance providers over the one year analysis period were identified in lists of sanctioned entities.

However, AUSTRAC reminds remittance providers that there is potential for criminal exploitation—including terrorism financing and SOC—to occur through Pacific corridors. Remittance providers must therefore remain vigilant and ensure their AML/CTF systems and controls are appropriate and updated to detect any changes in methodologies.

CUSTOMER PROFILE



AUSTRAC assesses that the risk profile for customers sending funds through remittance providers from Australia to the Pacific is **low**. This is based on findings that:

- 97.4 per cent of remittances were for customers who were individuals—as opposed to business customers—according to analysis of AUSTRAC data (compared to a global average of 91.6 per cent)
- there is a low number of politically exposed persons (PEPs) using remittance providers to remit to the Pacific
- it is uncommon for customers to use agents to send funds on their behalf.

TRANSACTION PROFILE



In examining the profile of transactions being sent, AUSTRAC assessed that the value of transactions presented a **low** vulnerability, while the number of transactions and use of cash presented **medium** vulnerabilities.

- Remittances to the Pacific are on average significantly lower in dollar value than global averages. According to AUSTRAC data, 75 per cent of remittances to PICs in the sample period were for amounts less than \$330. Customers who remitted large-dollar values did not remit frequently.
- The total number of remittances being sent from Australia to PICs is relatively high. This is particularly the case for countries with large migrant communities in Australia, including Fiji, Samoa and Tonga. However, customers who remitted a large number of transactions did not tend to remit large-dollar values.
- Reporting entities told AUSTRAC that it is common for Pacific remittance customers to use cash. However, cash transactions tend to be low in value. The prevalence of cash is expected to increase in the sector due to the closure of bank accounts held by remittance providers, associated with 'derisking'. This will likely increase exposure to ML/TF risks, as well as reduce visibility over a customer's source of funds. Remitters should monitor this potentially increased risk.

PURPOSE OF REMITTANCES



AUSTRAC assesses that the majority of remittances sent to PICs are for the purpose of supporting family and communities. This is based on industry feedback to AUSTRAC, as well as analysis of the customer and transaction profiles for Pacific remittance corridors.

Community remittances result in occasional peaks in remittance volumes and values, particularly around periods of significance for communities—such as weddings and funerals—or following natural disasters.

There is a very low rate of remittances for business purposes identified in this risk assessment.

DETECTION AND MITIGATION



Remittance providers in Australia are subject to all reporting entity obligations in the AML/CTF Act and Rules. They are also subject to increased scrutiny and oversight by AUSTRAC, through the requirement to be registered on AUSTRAC's Remittance Sector Register.

There is significant variation in the business sizes and models for remittance providers servicing Pacific Island countries. Thus there are significant variations in their AML/CTF systems and processes, as well as their likely effectiveness in mitigating ML/TF risks. AUSTRAC's engagement with Pacific remittance providers for the purpose of this risk assessment—including through responses to AUSTRAC's survey—demonstrated an overall competent level of awareness of AML/CTF obligations.

INTRODUCTION

Remittances play a vital role in the economies of Pacific Island countries (see Appendix B, Figure 15). Pacific Island economies are more dependent on remittances than any other region of the world.² Access to low-cost remittance services is also vital for financial inclusion; that is, the delivery of financial services at affordable costs to all sections of society.³

Financial inclusion has been recognised by the Group of Twenty (G20) as important for promoting development and reducing poverty, as well as enhancing financial stability and financial integrity.⁴ Given a large proportion—26 per cent⁵—of remittances to the Pacific come from Australia, the role of Australian remittance providers and banks in facilitating these transactions is significant.

According to AUSTRAC data, 23 remittance providers remitted funds from Australia to PICs in the 12 months to 31 January 2017 (see Appendix B, Figure 16). These remittance providers represent a small proportion of remittance flows to the Pacific in terms of dollar value (compared to remittances through banks). However, they facilitate a large number of transactions for migrant and seasonal workers from Pacific Island communities. Remittance providers also play an important role in providing services to less accessible locations and can be more cost effective for communities that remit relatively small amounts on a regular basis.

One significant issue that has been facing remittance providers for several years is a trend towards ‘derisking’ or ‘de-banking’—that is, the termination or restriction of business relationships with remittance providers by financial institutions (including correspondent banks).⁶ This subsequently affects the costs and availability of some remittance services. A report by the International Monetary Fund indicated that the average cost for sending remittances from Australia to PICs has been about 12–13 per cent, which is well above the G20 target of five per cent by 2020, and much higher relative to other Asian countries.⁷

Publicly available research indicates that decisions to de-bank remittance providers are often based on a variety of considerations including a low appetite for risk, cost-benefit analysis, economic and trade sanctions, or responses to evolving regulatory and enforcement landscapes.⁸ According to a World Bank survey in 2015 on the causes of termination and restriction of correspondent banking relationships, over 90 per cent of large international banks reported the cause to be ‘concerns about money laundering/terrorism financing risks’, making this the main cause identified.⁹

In AUSTRAC’s view, remittance services represent varying degrees of risk to banks. In many cases and with appropriate AML/CTF systems and controls in place, banks should be able to manage customers they deem to be high risk, including remittance providers. AUSTRAC encourages banks to continue to assess the particular risks relating to their customers in line with the risk-based approach.¹⁰

AUSTRAC was commissioned by the Department of Foreign Affairs and Trade (DFAT) to produce this risk assessment to better understand, and provide information on, the risk environment associated with remittances from Australia to PICs through remittance providers.

2 Bedford, R, Prof; Hugo, G, *Population Movement in the Pacific: A Perspective on Future Prospects*, Department of Labour, New Zealand, p 32, <https://www.border.gov.au/ReportsandPublications/Documents/research/pacific-population-report.pdf>

3 Stanley, Rebecca L; Buckley, Ross P, *Protecting the West, Excluding the Rest: The Impact of the AML/CTF Regime on Financial Inclusion in the Pacific and Potential Responses*, [2016] MelbJIntLaw 4; (2016) 17(1) Melbourne Journal of International Law 83

4 Ibid.

5 Alwazir, J et al, *IMF Working Paper: Challenges in Correspondent Banking in the Small States of the Pacific*, International Monetary Fund, April 2017, p 10, <https://www.imf.org/en/Publications/WP/Issues/2017/04/07/Challenges-in-Correspondent-Banking-in-the-Small-States-of-the-Pacific-44809>

6 World Bank, *World Bank Group Surveys Probe “De-Risking” Practices*, accessed at <http://www.worldbank.org/en/topic/financialmarketintegrity/publication/world-bank-group-surveys-probe-derisking-practices>

7 Alwazir, J et al, op. cit., p 19.

8 Ibid.

9 Erbenová, M et al, *The Withdrawal of Correspondent Banking Relationships: The Case for Policy Action*, International Monetary Fund, June 2016, <https://www.imf.org/external/pubs/ft/sdn/2016/sdn1606.pdf>

10 AUSTRAC statement, 25 November 2014, <http://www.austrac.gov.au/news/austrac-statement>

PURPOSE AND SCOPE

The primary purpose of this risk assessment is to provide information on the ML/TF risks associated with remittances sent through remittance providers from Australia to Pacific Island countries. This assessment also aims to assist remittance providers and banks to identify lower risk transaction types and scenarios in the corridors between Australia and the Pacific.

This risk assessment has been developed as a feedback resource. AUSTRAC expects that remittance providers and banks will consider this when undertaking their ML/TF risk assessments, noting the requirement for reporting entities to identify, assess and understand their own ML/TF risks. Reporting entities should use this assessment to refine their own compliance controls and mitigation strategies, and subsequently report suspicious matters to AUSTRAC.

Reporting entities should apply information in this assessment in a way that is consistent with the nature, size and complexity of their businesses, and the ML/TF risk posed by the designated services they offer and their customers. Future AUSTRAC compliance activities will assess how reporting entities in the sector have responded to the information provided here.

It is important to note that—unlike other ML/TF risk assessments produced by AUSTRAC to date—this assessment does not apply to an entire sector or financial product. It is only relevant to remittance providers that remit funds to PICs. This report does not assess:

- remittances sent by banks to PICs
- remittances sent from Australia to countries outside the Pacific
- remittances sent from PICs to Australia
- carrying physical cash to or from PICs
- the criminal threat environment within each PIC.

AUSTRAC expects that the level of risk would differ for other remittance scenarios. Each remittance corridor is likely to present a unique set of circumstances. This risk assessment represents an assessment of the current level of risk; however, being a dynamic environment, risk levels may change over time.

Fourteen PICs are covered in this risk assessment. Most assessments relate to all fourteen PICs; however, some analysis examines individual PICs in more detail. Extra information is provided on Samoa in various parts throughout this assessment, to give the reader more details on how remittances for an individual PIC may look. Samoa was selected for further examination because remittances play a vital role in Samoa's economy—remittances are the biggest source of external income for Samoa and account for over 17 per cent of Gross Domestic Product.¹¹ About 80 per cent of remittances to Samoa are through remittance providers.¹²

This risk assessment also includes analysis and statistics relating to a random sample of customers, used for comparison purposes. This sample was drawn from the full set of customers in Australia who sent funds through a remittance provider.¹³ This will be referred to as the 'global sample' throughout this report.

11 Stanley, Rebecca L; Buckley, Ross P, op. cit. and World Bank: <http://pubdocs.worldbank.org/en/818981492713050366/remittancedatainflowsapr2017.xls>

12 International Monetary Fund Asia Pacific Dept, 2017 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Samoa, May 2017, <http://www.imf.org/en/Publications/CR/Issues/2017/05/15/Samoa-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-44893>

13 The random sample comprised 162,561 customers. Customers were selected by sampling (uniform, no-replacement) 200,000 IFTIs from all outgoing IFTIs reported during the analysis period and identifying the sending customer.

METHODOLOGY

This risk assessment examines five key risk areas:

- Criminal threat environment
- Customer profile
- Transaction profile
- Purpose of remittance
- Detection and mitigation

The first section assesses the criminal threat environment associated with Pacific remittances by drawing on analysis of AUSTRAC data and other criminal intelligence. 'Threat' refers to the extent and nature of ML/TF and relevant predicate offences,¹⁴ including scams, identification concerns and other suspicious behaviour.

The next three sections assess vulnerabilities—that is, the characteristics that impact the sector's susceptibility to criminal exploitation.

The fifth section considers the measures and systems that Pacific remittance providers have in place to detect and mitigate criminal activity.

This risk assessment considered 15 risk factors across these five categories. An average risk rating was determined for each category, which was then used to determine an overall risk rating. Further information on the methodology and how this was applied is at Appendix A.

Four main intelligence inputs informed this risk assessment:

- analysis of IFTI reports, SMRs and TTRs submitted to AUSTRAC by remittance providers over the 12 months to 31 January 2017, as well as other AUSTRAC information and intelligence
- data, reports and intelligence from partner agencies, in particular the Australian Criminal Intelligence Commission (ACIC)
- feedback and professional insights offered during interviews and consultations with a range of remittance providers and banks, as well as industry experts and an industry association
- data collected from a survey conducted by AUSTRAC. The 23 remittance providers that remit funds from Australia to the Pacific were invited to complete the survey consisting of 20 questions. The survey was completed by 19 (or 82 per cent) of these remittance providers. Eight respondents were registered with AUSTRAC as Remittance Network Providers, three were registered as affiliates, and 12 as independent remitters (note: businesses can hold more than one registration type).

¹⁴ A predicate offence is any offence that generates proceeds of crime, which can then be laundered.

REPORTING TO AUSTRAC

Entities providing a designated remittance service have reporting obligations under the AML/CTF Act. The submission of IFTI reports and SMRs to AUSTRAC are critical obligations under the Act.

For this risk assessment, AUSTRAC analysed in detail all outgoing IFTIs and SMRs relating to PICs submitted over a one-year period, where these reports were submitted by a remittance provider. Further data comparing IFTIs for remittance providers and banks is in Appendix B, Figures 17 and 18.

IFTI REPORTS

PICs: IFTI REPORTS SUBMITTED BY REMITTANCE PROVIDERS

23 remittance providers submitted at least 1 IFTI

451,132 IFTI reports submitted

\$175M total value of transactions in IFTI reports

1 February 2016 to 31 January 2017

SAMOA: IFTI REPORTS SUBMITTED BY REMITTANCE PROVIDERS

The number of remittances moving from Australia to Samoa represents 26 per cent of all remittances to PICs. In terms of value, Samoan remittances account for 22 per cent of all Pacific remittances.

12 remittance providers submitted at least 1 IFTI

107,618 IFTI reports submitted

\$38M total value of transactions in IFTI reports

1 February 2016 to 31 January 2017

As Figure 1 (page 11) demonstrates, there are large variations between PICs in terms of the number of remittances over the analysis period. There are significantly more remittances to Fiji, Tonga and Samoa than to other PICs. Each of these three countries received more than 100,000 IFTIs over the 12-month period. The next largest country, Papua New Guinea, received approximately 20,000 IFTIs over the 12-month period, while four PICs had less than 100 IFTIs (Marshall Islands, Nauru, Niue and Palau). Palau is the lowest with 38 IFTIs.

Similarly, Figure 2 (page 11) demonstrates large variations between PICs in terms of total dollar amounts being remitted. However, the value of IFTIs for each PIC is proportionate to the number of IFTIs for the respective PIC.

Regional variations in IFTI numbers and values are expected, given differences in population and in particular, differences in the size of migrant populations in Australia (see Appendix B, Figure 19). IFTI values also tend to be proportionately higher for countries with strong ties to Australia, compared with countries that have historical ties to the United States of America (such as Marshall Islands) or New Zealand (Cook Islands and Niue).

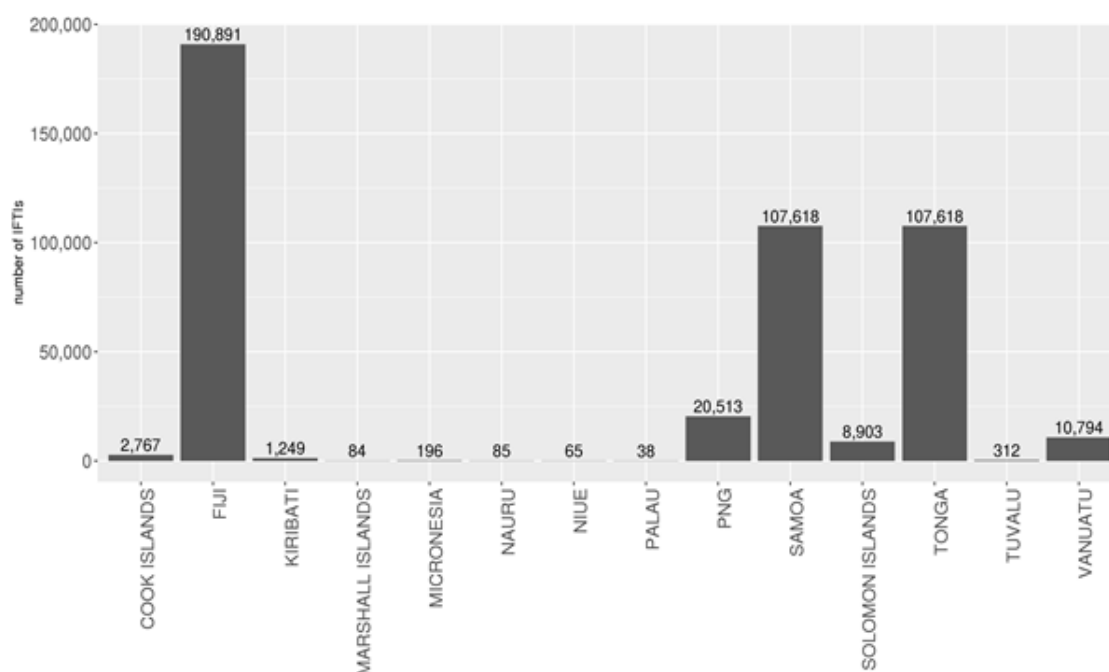
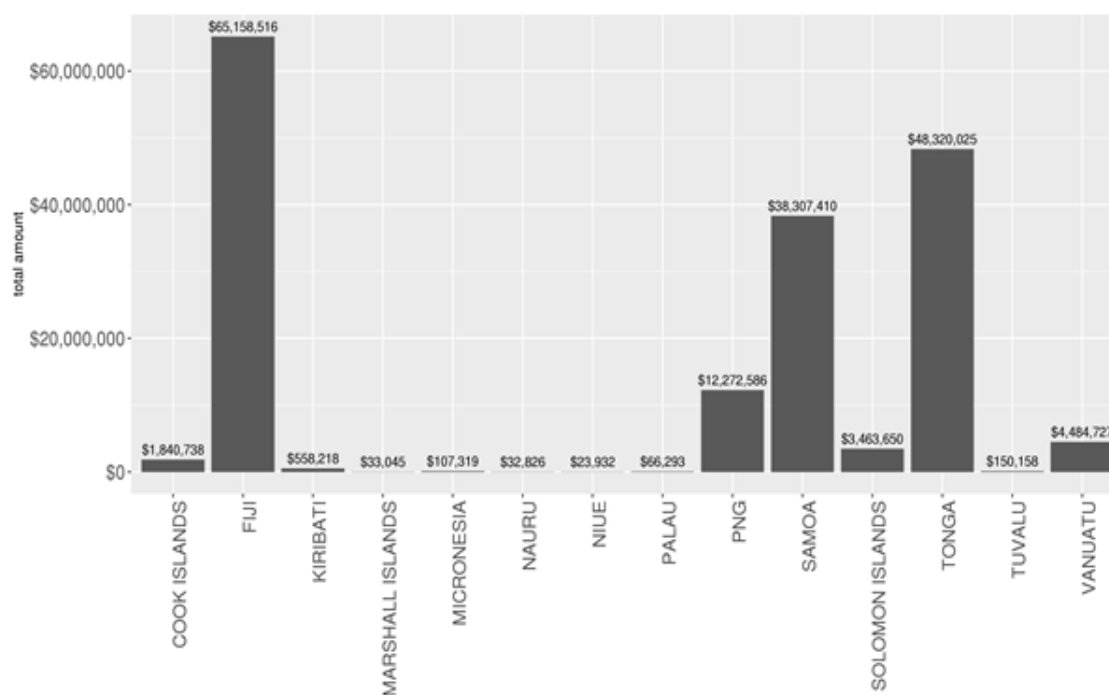
FIGURE 1: NUMBER OF IFTIs BY REMITTANCE PROVIDERS FROM AUSTRALIA TO PICs OVER ONE YEAR.¹⁵

FIGURE 2: TOTAL VALUE OF IFTIs BY REMITTANCE PROVIDERS FROM AUSTRALIA TO PICs OVER ONE YEAR

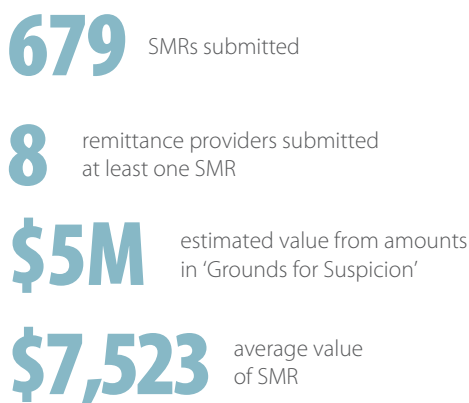


¹⁵ By coincidence the number of IFTIs sent to Samoa was the same as the number of IFTIs sent to Tonga.

SMRs

SMRs provide valuable intelligence to AUSTRAC. Working with its partner agencies, AUSTRAC pieces together intelligence derived from SMRs with a range of sources to develop a picture of criminal activities and networks. AUSTRAC's partner agencies, including the Australian Federal Police and Australian Criminal Intelligence Commission – have access to AUSTRAC SMRs to conduct further analysis and investigation.

PICs: SMRs SUBMITTED BY REMITTANCE PROVIDERS

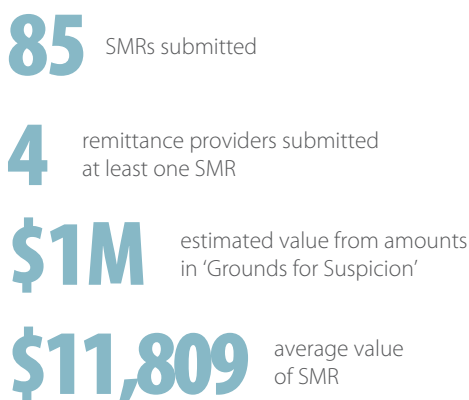


1 February 2016 to 31 January 2017

* The value reported in SMRs is often the sum of a number of associated transactions

SAMOA: SMRs SUBMITTED BY REMITTANCE PROVIDERS

SMRs relating to Samoa represent 13 per cent of the number of SMRs submitted in relation to PICs, and 20 per cent of the estimated value of those SMRs.



1 February 2016 to 31 January 2017

AUSTRAC assesses that the number of SMRs submitted by remittance providers regarding Pacific remittances (see Figure 3) is low compared to the number of remittances being sent. For every 100 IFTIs being sent through remittance providers to the Pacific, an average of 0.22 SMRs is submitted (the lower dashed line in Figure 4 on the following page). The global average is 0.36 SMRs per 100 IFTIs (the upper dashed line in Figure 4). Although a low number of SMRs in itself does not necessarily equate to low ML/TF risk, this data indicates that remittance providers in Australia—some of which remit funds globally—detected less suspicious behaviour associated with funds being remitted to the Pacific than for funds being remitted globally.

Significant variation was observed among the individual PICs. Four PICs had some of the highest rates globally, with over 3 SMRs per 100 IFTIs:

- Marshall Islands—3 SMRs to 84 IFTIs
- Nauru—3 SMRs to 85 IFTIs
- Niue—1 SMR to 65 IFTIs
- Palau—1 SMR to 38 IFTIs.

However, these countries received a very small number of both SMRs and IFTIs. The behaviour described in these SMRs does not indicate a high risk of criminal activity. Further detail on the SMRs for each PIC is provided in the 'Criminal threat environment' section of this risk assessment.

In contrast, the larger PICs—Fiji, Samoa and Tonga—had far lower rates (less than 1 SMR per 400 IFTIs), which are below the global average.

FIGURE 3: NUMBER OF SMRs SUBMITTED BY REMITTANCE PROVIDERS OVER ONE YEAR, FOR REMITTANCES FROM AUSTRALIA TO PICs¹⁶

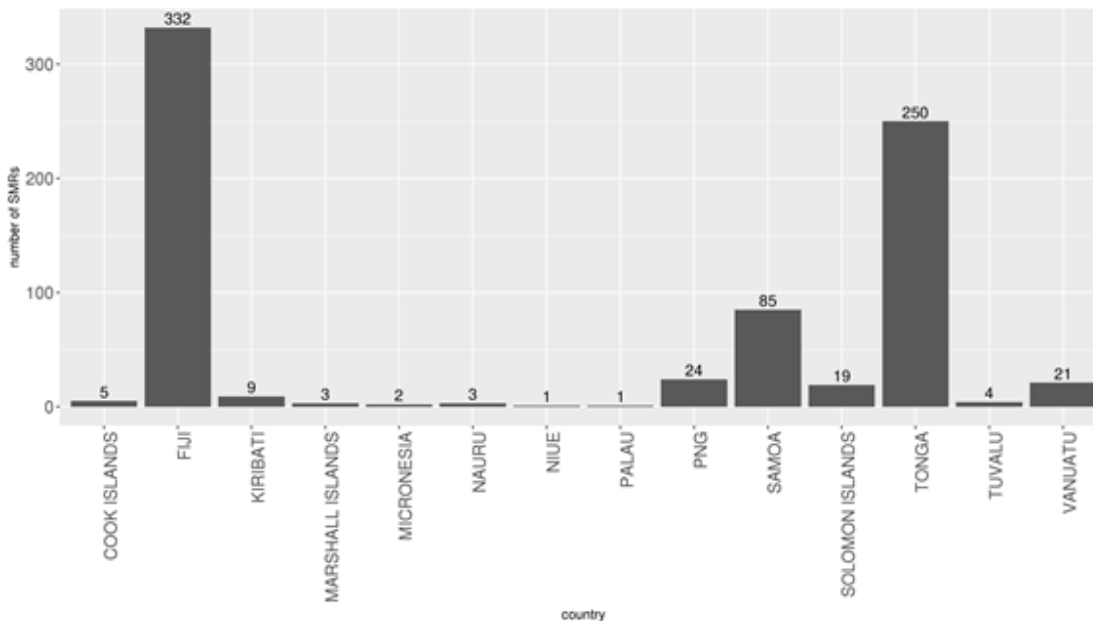
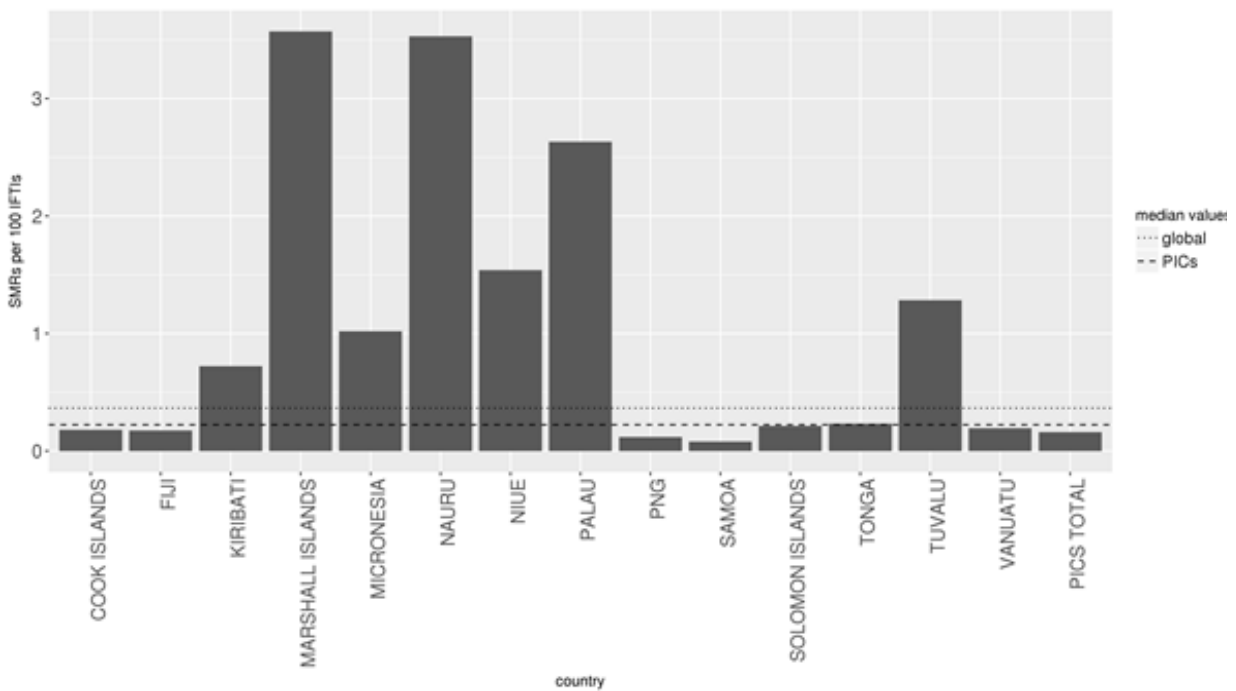


FIGURE 4: RATE OF SMRs PER 100 IFTIs BY REMITTANCE PROVIDERS FROM AUSTRALIA TO PICs OVER ONE YEAR



¹⁶ Note that a single SMR may relate to more than one country, thus some SMRs may contribute to counts for multiple countries.

01 CRIMINAL THREAT ENVIRONMENT



AUSTRAC assesses that there is a **low** level of criminality associated with remittances sent through remittance providers from Australia to PICs.

The assessments made in this section are based on:

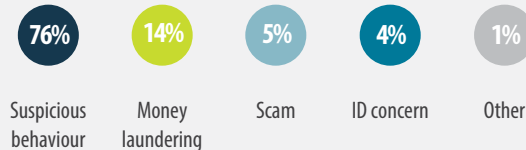
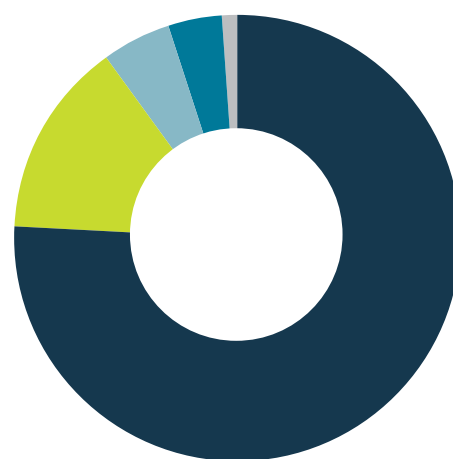
- analysis of 679 SMRs submitted by remittance providers over a one-year period
- intelligence collected from law enforcement and criminal intelligence agencies
- the results of data-matching exercises using AUSTRAC data and other public and government data.

It is important to note that AUSTRAC only gathered intelligence for this risk assessment that directly related to remittance flows from Australia to PICs through remittance providers.

AUSTRAC analysed four main suspected offence types relating to Pacific remittances. Suspected money laundering accounted for 14 per cent of SMRs. There were no reports relating to suspected terrorism financing. The two main types of suspected predicate offences reported in SMRs were scams and concerns around customer identification. The vast majority of SMRs described suspicious behaviour by the customer, but in most cases there was no clear suspected offence. AUSTRAC considered these SMRs to be of low intelligence value.

Unlike other sector and product risk assessments conducted by AUSTRAC, there were no cases of cyber-enabled criminal activity reported by reporting entities. AUSTRAC also did not observe many cases in SMRs in which sophisticated tactics or methods were used.

FIGURE 5: SUSPECTED OFFENCES IN SMRs



AUSTRAC also conducted several data-matching exercises to determine the level of criminality associated with customers remitting funds to the Pacific.

Based on analytical work undertaken with the ACIC, AUSTRAC assesses that customers sending funds through remittance providers to the Pacific are very unlikely to be involved in criminal activity,¹⁷ and significantly less likely when compared with the global sample.

¹⁷ Criminal activity in this context relates to a variety of activities including drugs, firearm offences, violent offences, fraud, money laundering, or association with gangs or serious and organised crime groups.

AUSTRAC also determined that customers remitting funds to PICs were less likely to be the subject of an SMR, compared to the global sample. AUSTRAC matched customer names in IFTIs against customer names in all of AUSTRAC's SMR holdings. Of the 76,069 customers who remitted funds from Australia to PICs through remittance providers, 653 customers (0.9 per cent) were the subject of an SMR. For the global sample, 2,351 out of 162,561 customers (1.4 per cent) were the subject of an SMR.

AUSTRAC also determined that no customers who remitted funds to PICs through remittance providers over the last year were recorded on the Australian Government's Consolidated List, which includes all persons and entities who are subject to targeted financial sanctions or travel bans under Australian sanctions laws.

During AUSTRAC's stakeholder engagements, the view from industry was also that the criminal risk associated with outward remittances to PICs was generally low. One large remittance provider said that they had no major areas of concern for PICs compared to other regions, and they generally had observed low levels of criminal activity. However, some stakeholders cautioned that PIC corridors may become higher risk as other corridors are hardened.

FIGURE 6: SMRs BY PACIFIC ISLAND COUNTRY

Country	Money laundering	Suspicious behaviour	Scam	ID concern	Other
Cook Islands	0	5	0	0	0
Federated States of Micronesia	0	2	0	0	0
Fiji	12	270	30	20	0
Kiribati	0	9	0	0	0
Marshall Islands	0	2	0	0	1
Nauru	0	2	0	0	1
Niue	0	1	0	0	0
Palau	0	1	0	0	0
Papua New Guinea	0	23	0	1	0
Samoa	29	56	0	0	0
Solomon Islands	1	17	1	0	0
Tonga	66	182	2	0	0
Tuvalu	0	4	0	0	0
Vanuatu	6	13	2	0	0
Total	114	587	35	21	2
% of total	14%	76%	5%	4%	1%

JURISDICTION RISK

AUSTRAC observed during interviews with remittance providers and banks that approaches to assessing jurisdiction risk varied quite considerably. One reporting entity applied risk ratings to the remittance corridor (for example, risk for Australia to Samoa corridor), but different risk ratings for the in-country risk (for example, Samoa country risk).

One reporting entity who sends funds to several PICs, rated other Pacific corridors as high risk because they did not operate in those corridors and therefore do not have visibility over them. Another reporting entity rated certain corridors as high risk because they were the primary remittance provider for that corridor, so would have a higher exposure to any potential criminal activity occurring in that corridor.

Many stakeholders, in particular banks engaged with by AUSTRAC, said they believed the criminal risks associated with remittances *from PICs to Australia* were higher than for flows *from Australia to PICs*. Potential reasons for this include: funds being sent from PICs to Australia are generally not for family support purposes; the source of funds was harder to identify; and the amounts were often larger. It is beyond the scope of this risk assessment to analyse inward remittances. However, reporting entities should ensure that their transaction monitoring systems are configured to account for these variations in risk.

MONEY LAUNDERING

AUSTRAC SMR data indicates that remittance providers servicing PICs have observed transactions suspected to be related to money laundering.

There were 93 money laundering-related SMRs submitted to AUSTRAC during the sample period. The total value of these SMRs was \$1,571,086. The mean amount was \$16,893. Almost all of these SMRs described potential structuring—that is, where a customer made two or more transactions on the same day (or within a short period), which added up to more than \$10,000, in an apparent attempt to avoid threshold transaction reporting requirements.¹⁸

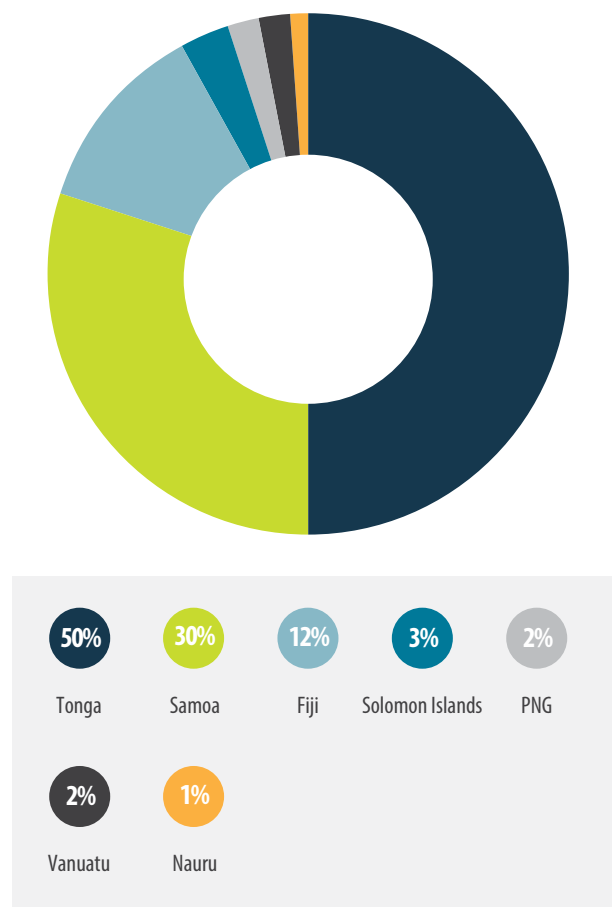
¹⁸ Structuring is a money laundering technique involving the deliberate splitting of cash transactions into amounts less than \$10,000 to avoid threshold transaction reporting requirements. It is an offence to conduct transactions designed to avoid threshold transaction reporting. AUSTRAC cannot be certain from the information in the SMRs that all the transactions referred to in these SMRs were cash-based.

As well as the suspicion of structuring, some SMRs involved other suspicious behaviour by the customer, such as receiving large amounts through international funds transfers, or undertaking transactions that were inconsistent with the customer's occupation.

Some SMRs were reported on the basis that two or more people with the same home address were remitting large funds on the same day, which added up to more than \$10,000.

Of the 93 money laundering SMRs, half related to Tonga, followed by 30 per cent for Samoa and 12 per cent for Fiji. Only three of these 93 SMRs also involved funds being sent to non-PIC countries.

FIGURE 7: MONEY LAUNDERING SMRs BY COUNTRY



AUSTRAC assessed that the SMRs involving Tonga were unlikely to indicate large-scale money laundering. Each money laundering SMR described one instance of suspected structuring, and the average value of IFTIs being reported on was \$14,131. The SMRs involving Samoa were very similar (see below).

SAMOA: SUSPECTED MONEY LAUNDERING SMRs

28 money laundering (ML) SMRs

\$584,150 in value for ML SMRs

\$20,863 average value of ML SMRs

1 February 2016 to 31 January 2017

It is unlikely that money laundering is occurring on a large scale in the Australia-Samoa corridor. Each money laundering SMR described one instance of suspected structured payments. In the vast majority of cases, the amount remitted in each of the IFTIs reported in the SMR was less than \$5,000.

Just one SMR had a significant value. In this case, in a period of just over one month, two connected individuals sent over 20 remittances from three different locations, valued at over \$210,000. All transactions were less than \$10,000. The funds were sent to five different receivers in two different locations. The reporting entity had stopped future transactions from occurring, pending the results of enhanced customer due diligence.

PICs are seeing a growth in the casino sector, which, once established, may provide opportunity for Australia-based criminals to launder proceeds of crime. AUSTRAC is not aware of any intelligence indicating that remittance providers are being used to send illicit funds to casinos based in PICs. However, this is a potential vulnerability that may change as casinos expand their footprint in PICs.

TERRORISM FINANCING

AUSTRAC assesses the threat of terrorism financing through remittance providers to the Pacific as very **low**. In the one-year sample period for this risk assessment, there were no SMRs regarding suspected terrorism financing. AUSTRAC also determined that no customers, who remitted funds to PICs through remittance providers over the last year, were identified in AUSTRAC databases as high-risk entities for terrorism financing. From the intelligence provided by AUSTRAC's partner agencies for this assessment, there were no reports of terrorism financing relating to remittance providers sending funds to PICs.

Nonetheless, remittance providers are reminded that AUSTRAC has previously assessed that remittances are one of several key channels used to transfer funds for terrorism financing.¹⁹ Remittance providers should therefore remain vigilant and ensure their transaction monitoring programs are updated to detect any changes in terrorism financing methodologies and values.

¹⁹ AUSTRAC, *Terrorism financing in Australia 2014* (TFA 2014), p 7, <http://www.austrac.gov.au/publications/corporate-publications-and-reports/terrorism-financing-australia-2014>. This report also contains key indicators of terrorism financing that reporting entities should be aware of.

PREDICATE OFFENCES

The two main types of suspected predicate offences reported by remittance providers in SMRs were suspected scams and identification concerns.

There were also two SMRs in which reporting entities discovered that the customer's name matched that of a person reported in the media as being previously involved in criminal activities.

SCAMS

In one year, there were 37 SMRs (relating to 30 unique customers) reported to AUSTRAC where the reporting entity suspected that the customer was the victim of a scam.

The majority (24) of these cases were linked to Fiji. The remaining 13 SMRs were associated with Samoa, Tonga, Vanuatu and Solomon Islands. Half the cases also involved a non-regional country (in addition to PICs), with five relating to India and four to the Philippines.

The total value of the 37 SMRs was \$216,359—on average \$5,848. However, amounts varied from \$300 to \$23,000. Some cases took place over a period of two-to-three weeks. Others were over a year, with some involving more than 40 transactions.

In some cases, the reporting entity formed a suspicion when they asked the customer about the person receiving the funds, and discovered the customer had little information about the receiving person. Reporting entities also tended to note that the customers were older and often sending funds to younger people with whom they had no apparent connection.

CUSTOMER IDENTIFICATION CONCERNS

There were 30 SMRs in the sample period relating to concerns about the identity of customers, or suspicions that customers were using false documents. These included cases in which customers presented:

- multiple IDs with different dates of birth
- multiple IDs with different addresses
- multiple IDs with different names
- the same ID purporting to represent different individuals
- multiple versions of the same ID with different expiry dates
- many different IDs.

In most cases, the concern around customer ID was reported alongside other reasons for suspicion, including customers sending to multiple individuals, or higher than normal transaction frequency.

Almost all of these SMRs related to either Fiji or Tonga.

SUSPICIOUS BEHAVIOUR

The vast majority (76 per cent, or 516) of SMRs reported by Pacific remittance providers described factors that the reporting entity deemed to be suspicious behaviour. AUSTRAC's analysis of these SMRs did not reveal the reporting entity suspected any particular offence. AUSTRAC considered these SMRs to be of low intelligence value, as no major trends or methodologies at the strategic level were determined.

The factors described in these SMRs included:

- higher frequency of transactions by a customer (380 SMRs)
- multiple transactions made by a customer on the same day (150 SMRs)
- higher values of remittances by a customer (80 SMRs)
- remittances sent by one person to many different receivers (280 SMRs)
- remittances sent by many people to one receiver (3 SMRs).

'ONE TO MANY' REMITTANCES

AUSTRAC notes that funds moving from one person to many different receivers can be an indicator of a money laundering methodology. In the cases observed here, many related to low values that are generally not associated with money laundering. The practice of one person sending funds to many people in PICs is an expected trend, given the prevalence of community remittances (see 'Purpose of remittance' section).

In most cases, reporting entities noted they had observed two or more of these factors occurring, which, when combined, contributed to the suspicion picture. In over half of these SMRs, the reporting entity also rated the relevant Pacific country as a high-risk jurisdiction, which formed part of the rationale for submitting the SMR. As noted in the 'Jurisdiction risk' box above, the criterion for assessing a country as high risk varies considerably between reporting entities.

Over 65 per cent of these 516 SMRs had values less than \$1,000 per transaction, or less than \$5,000 per SMR. Almost 15 per cent involved values over \$5,000 per transaction, or over \$10,000 per SMR.

Forty-one SMRs also involved a non-regional country, including 22 involving New Zealand, five involving India and four involving the Philippines.

INVOLVEMENT BY SERIOUS AND ORGANISED CRIME GROUPS

AUSTRAC assesses that the current level of involvement by SOC groups (including money laundering syndicates) in remitting funds to the Pacific through remittance providers is **low**. Despite there being significant links between SOC groups in Australia and some PICs, as part of this risk assessment AUSTRAC found no evidence of SOC groups using remittance providers to facilitate remittances for illicit purposes.

However, there is potential for this to become an area of growing concern. PICs have been recognised by the United Nations Office on Drugs and Crime as being increasingly targeted by transnational organised crime groups.²⁰ AUSTRAC is also aware of money mules being used in Pacific drug-smuggling rings.²¹

Intelligence from AUSTRAC's partner agencies indicates that PICs are vulnerable to a range of criminality, including illegal fishing, human trafficking, drugs and firearms. There is also a risk of criminals who have been deported from Australia to PICs reoffending in their home countries. PICs have also been identified as attractive transit points for illicit trafficking of goods, including drugs, from Asia and South America to Australia.²² It is therefore possible that payments relating to such activities—such as reimbursement payments for accommodation and other expenses—may be made from Australia through remittance providers to PICs.

Australian Outlaw Motorcycle Gangs (OMCGs) have a presence in the Pacific region. Some are known to travel to the region to recruit and establish 'chapters', particularly in Fiji.²³ AUSTRAC determined that a very small number of customers sending funds through remittance providers to the Pacific are involved in Australian OMCGs. This was at a level consistent with the global sample. It does not appear that these customers were remitting funds for criminal purposes, as most only remitted a few times in a year and generally in small amounts (the mean amount for these remittances was \$470). The most value remitted by any one customer was just under \$20,000 over a year.

AUSTRAC previously assessed²⁴ that organised crime groups have been involved in money laundering, such as cuckoo smurfing operations,²⁵ through remittance providers to move money offshore. However, AUSTRAC did not observe this methodology in relation to PICs in the analysis period for this risk assessment.

Remittance providers should be aware of the potential for their services to be exploited to support such crimes. Illicit transactions may be hidden among other legitimate transactions and difficult to identify in isolation. This reinforces the importance of remittance providers knowing their customers, their business and the purpose of the transactions they are facilitating.

20 United Nations Office on Drugs and Crime, *Transnational Organized Crime in the Pacific: A Threat Assessment*, September 2016, p. iii. https://www.unodc.org/documents/southeastasiaandpacific/Publications/2016/2016.09.16_TOCTA_Pacific_web.pdf

21 AUSTRAC case study 'International students used as "mules" in Pacific drug smuggling ring', <http://www.austrac.gov.au/case-studies/international-students-used-%E2%80%98mules%E2%80%99-pacific-drug-smuggling-ring>

22 United Nations Office on Drugs and Crime, op. cit., pp 8-9.

23 Ibid, p 9.

24 AUSTRAC, *Money laundering in Australia 2011* (MLA 2011), p. 17, <http://www.austrac.gov.au/publications/corporate-publications-and-reports/money-laundering-australia-2011>

25 Cuckoo smurfing involves complicit remittance dealers operating as 'go-betweens', depositing illicit funds (for instance, the proceeds from drug deals) into accounts of innocent parties who are expecting transfers from legitimate transactions made overseas. In exchange, criminals receive matched payments overseas without leaving a money trail back to them.

02 CUSTOMER PROFILE



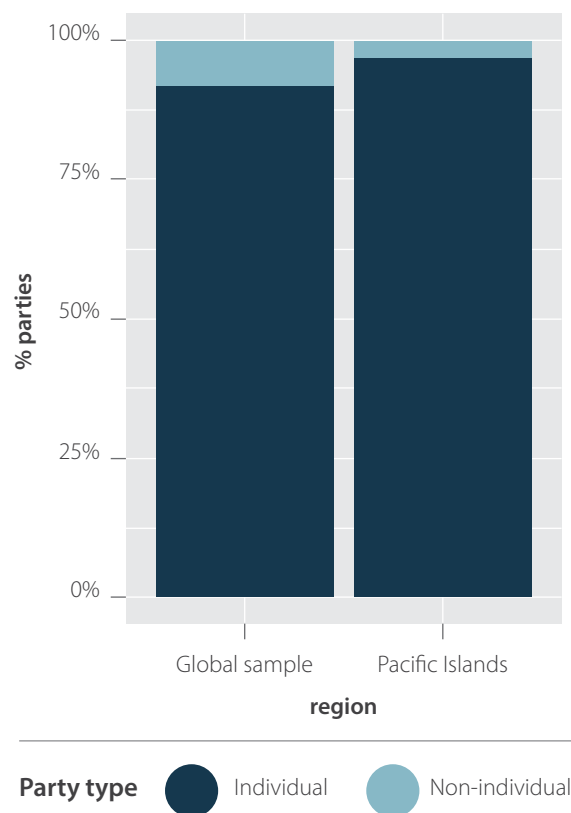
AUSTRAC assesses the risk posed by customers of remittance providers sending funds from Australia to PICs as **low**. This is based on the type of customers sending funds and the extent to which PEPs and agents are involved.

CUSTOMER TYPE

The vast majority of customers sending funds²⁶ through remittance providers to PICs are individuals. Analysis of AUSTRAC IFTI data revealed that 97.4 per cent of remittances were for individual customers, with the remaining 2.6 per cent being non-individuals.²⁷ This compared with 8.4 per cent of customers being non-individuals for the global sample of remittance transactions sent out of Australia. Some remittance providers told AUSTRAC during consultations that providing remittance services to business customers was beyond their risk appetite.

Palau appeared to have a larger proportion of IFTIs that were sent by non-individual customers (six out of 38 IFTIs, or 16 per cent). However, these related to just three non-individual customers. These transactions are analysed further in the 'Transaction values' section.

FIGURE 8: PROPORTION OF INDIVIDUAL AND NON-INDIVIDUAL CUSTOMERS



These results are consistent with findings that the majority of remittances to PICs are for family and community support, which is discussed in the 'Purpose of remittances' section.

²⁶ For the purpose of this risk assessment, AUSTRAC did not assess the risk profile of beneficiary customers. However, reporting entities should apply the risk-based approach to all transactions, including the beneficiary customers.

²⁷ Non-individuals includes companies, trusts, charities and other not-for-profit entities—any entity that is not a natural person.

POLITICALLY EXPOSED PERSONS

Remittance providers are required under the AML/CTF Rules to screen their customer base for domestic and foreign PEPs.

Feedback from Pacific remittance providers was that they have very few PEP customers. In response to AUSTRAC's survey, 12 out of 17 remittance providers stated they had not identified any customers as PEPs (in relation to Pacific Island corridors). Four remittance providers identified between one and five customers as PEPs, and one RNP had more than 20 PEP customers.

All respondents to this question indicated that they screen either some (four respondents) or all (12 respondents) their customers to determine if the customer is a PEP. All but one respondent said they used some form of third-party information and screening service to identify PEPs.

AUSTRAC analysis indicates that the number of PEP customers sending funds to PICs was slightly lower than global averages.

There were three SMRs in the dataset for this assessment that related to customers who were identified as PEPs—two of these SMRs were about the same PEP customer. The reports were similar in nature and submitted after certain transactions were flagged by transaction monitoring systems. No serious offences were suspected.

Of the remittance providers interviewed by AUSTRAC for this risk assessment, most said they would send payments for customers identified as PEPs, subject to enhanced due diligence. However, one network provider indicated that PEPs fell outside their risk appetite and, once identified, they were not accepted as customers. Almost all entities interviewed for this assessment were more concerned about incoming payments involving PEPs than outgoing payments.

SAMOA: ONE REMITTANCE PROVIDER'S EXPERIENCE WITH PEPs

One remittance provider who remits only to Samoa was interviewed by AUSTRAC, and told us that from a recently screened list of nearly 450 customers, there were 19 identified as potential PEPs. When the remittance provider investigated further, only two customers were positively identified as PEPs. Both customers had previously been identified as PEPs during the usual course of business and their transactions were not deemed to be suspicious.

AGENTS OF CUSTOMERS

Remittance providers reported to AUSTRAC in the survey that it is very uncommon for their customers to use agents to remit funds—16 out of 18 respondents indicated that none of their customers used agents. One respondent indicated that less than five per cent of their customers were represented by agents. Another respondent reported that more than 20 per cent of their customers used agents. It is likely that this last respondent facilitates payments for businesses and other non-individual customers.

Of the 679 SMRs analysed for this assessment, only three involved agents. One involved an agent acting for an individual and the other two related to companies. One company was the victim of a fraud.

03 TRANSACTION PROFILE



In examining the profile of transactions being sent, AUSTRAC assessed that the value of transactions presented a **low** vulnerability, while the number of transactions and use of cash presented **medium** vulnerabilities.

Understanding the profile of transactions being remitted across the sector can be useful for reporting entities to know what transactions or patterns of transactions are typical for Pacific corridors. It also allows reporting entities to determine whether particular transactions are unusual or require further consideration to determine if they are suspicious.

TRANSACTION VALUES

AUSTRAC analysis shows that remittances from Australia to PICs are, on average, significantly lower in value than global averages.

Analysis of AUSTRAC data revealed that:

- 75 per cent of remittances to PICs in the sample period were for amounts less than \$330
- 50 per cent of customers sent less than \$2,451 in total over the one-year sample period
- 75 per cent of customers sent less than \$10,027 in total over the one-year sample period.

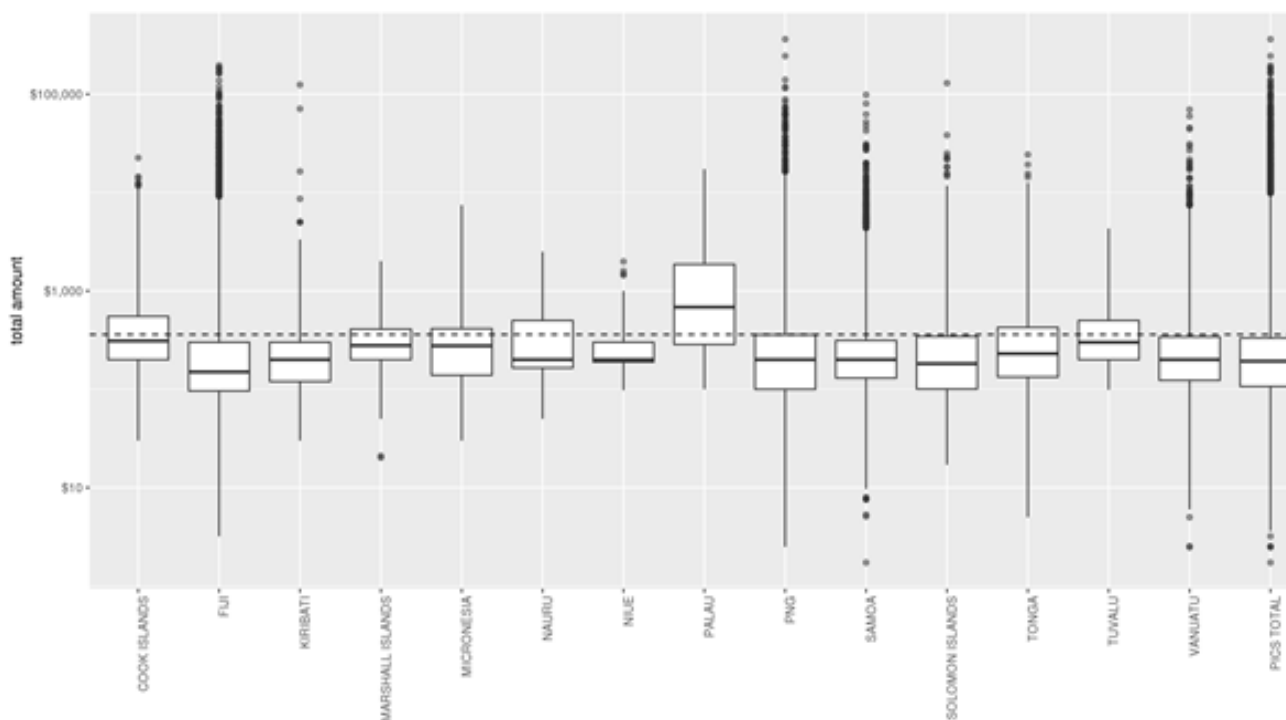
All PICs except Palau had mean amounts less than \$1,000, with many having mean amounts less than \$500. Palau is an exception among the PICs, with a mean amount of \$1,700. Further analysis indicated that eight out of the 38 IFTIs relating to Palau accounted for more than half the value of all remittances to Palau. Those eight transactions are likely to be for business purposes, based on the remittance businesses that sent those payments. After adjusting for those eight transactions, the mean amount of the remaining 30 transaction is—like all other PICs—less than \$1,000.

One large remitter interviewed by AUSTRAC provided information showing that their average transaction values to PICs are all substantially lower than their global average payment of \$650.

Another remitter explained this by saying that large transactions, including aid payments, were sent via banks.

As shown in Figure 11, the majority of IFTIs to PICs are for values less than the global median (see the dashed line). However, some PICs also have higher-value IFTIs that lie outside the typical range (represented by dots on the vertical lines). Reasons for this are explored in the 'Purpose of remittances' section. Additional analysis of these high-value remittances (see Appendix B, Figure 20) showed that customers who remitted large dollar amounts did not tend to remit frequently.

FIGURE 9: DISTRIBUTIONS OF IFTI VALUES TO PICs



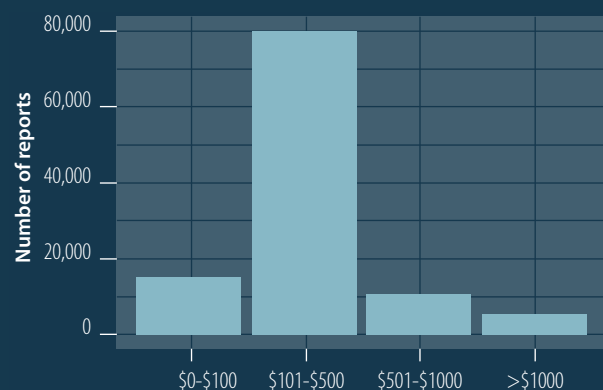
Note: The horizontal line within each box represents the median value. Lines extending vertically from each box represent the expected range for total amounts. Each of the points outside this range represents a report that has an unusually low or high amount. The vertical axis is a logarithmic scale (grid lines indicate an increase by a factor of 10).

SAMOA: IFTI VALUES

Samoa shows a similar distribution of IFTI values as the Pacific region as a whole. The vast majority of remittances are for amounts less than \$500.

Mean amount: **\$355**
 Median amount: **\$200**
 Min amount: **\$1.73**
 Max amount: **\$98,451**

FIGURE 10: VALUE OF REMITTANCES TO SAMOA



NUMBER OF TRANSACTIONS

Overall, the total number of remittances being sent from Australia to PICs is relatively high. IFTIs to PICs represent 4.5 per cent of the total number of IFTIs sent globally through remittance providers. This is high relative to the population and economic size of PICs. This is almost certainly due to the large size of Pacific migrant communities in Australia, and large proportion of Pacific Island gross domestic products that are dependent on remittances.

However, customers sending funds to PICs remit with approximately the same regularity as customers sending funds to other non-Pacific countries. For comparison, AUSTRAC analysed the regularity of remittances for customers remitting to a random sample of five countries outside the Pacific region.²⁸ These customers showed similar behaviour to Pacific customers in the number of remittances they sent.

In both cases, approximately 33 per cent remitted only once, and approximately 70 per cent remitted five or less times. For the PIC dataset, a small proportion of customers had far higher numbers of remittances. Additional analysis (see Appendix B, Figure 20) shows that these customers tended to have lower total amounts sent over the analysis period. This indicates that low amounts were being sent in each individual remittance.

FIGURE 11: NUMBER OF IFTI REPORTS PER CUSTOMER—PACIFIC REMITTANCES

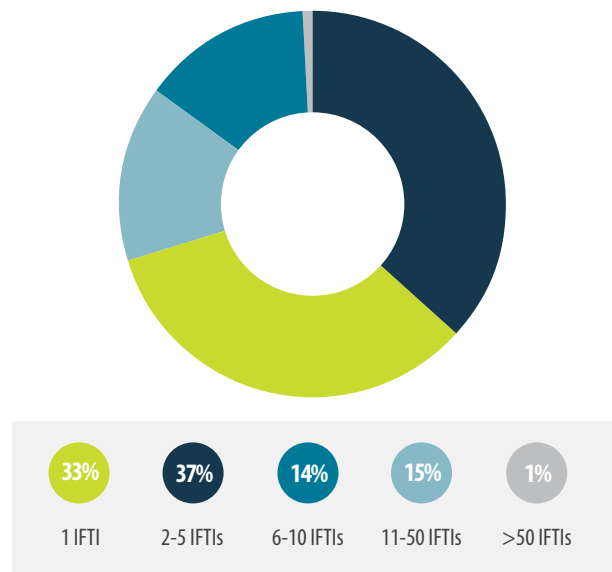
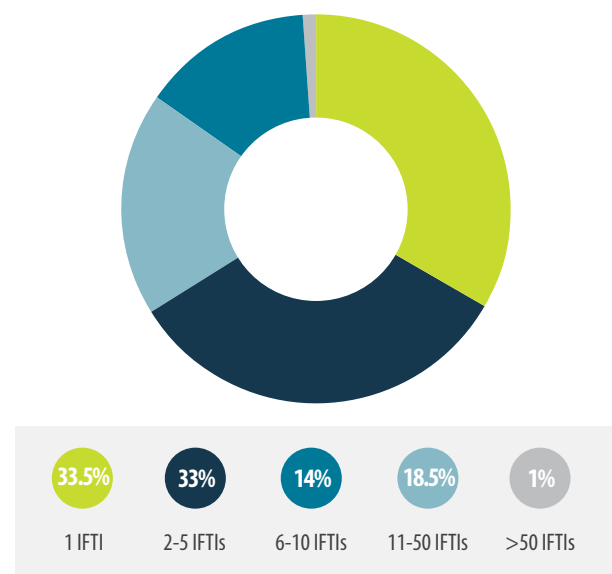


FIGURE 12: NUMBER OF IFTI REPORTS PER CUSTOMER—NON-REGIONAL COUNTRIES



²⁸ Countries chosen for this analysis were Greece, Thailand, Senegal, Singapore and South Korea. This analysis considered transaction behaviour within the confines of the subject remittance corridors, rather than the behaviour of associated customers in general. Therefore, a sample set of countries was used rather than the global sample of remittance customers.

USE OF CASH

AUSTRAC looked at two areas related to the use of cash by Pacific remittance providers: the extent to which customers used cash to make transactions; and the prevalence of cash in the sector as a consequence of de-risking.

Although unable to determine the full extent of cash used by customers,²⁹ AUSTRAC assesses that the use of cash would be common and expected for customers remitting funds through remittance providers to PICs, based on:

- feedback from remittance providers during stakeholder engagements
- the large representation of individuals sending funds to PICs, who are more likely than non-individuals to use cash
- the low values being remitted to PICs, which are more likely to involve cash than larger transactions
- the presence of structuring-related SMRs being reported by remittance providers, which involve the suspected splitting of cash transactions.

To determine if cash was involved in larger transactions, AUSTRAC analysed reported Threshold Transaction Reports to identify customers who made cash deposits of \$10,000 or more on the same day as remitting funds to a PIC. Fiji, Samoa and Tonga were the only PICs where this type of behaviour was observed – in a total of 21 remittances over the one-year sample period. The total amounts involved were relatively low and only one party engaged in this behaviour more than once in the year.

FIGURE 13: CASH TRANSACTIONS OVER \$10,000 TO PICs

Country	No. of customers	Total no. of TTRs	Total amount	Mean amount
Fiji	3	3	\$41,500	\$13,833
Samoa	12	12	\$176,144	\$14,679
Tonga	5	6	\$87,092	\$17,418

During consultations, remittance providers told AUSTRAC that the use of cash is expected to increase in the sector. This is primarily due to the removal of options for remittance providers to conduct fund transfers through bank accounts, following the trend of account closures associated with de-risking. This has resulted in some remittance providers—in particular some RNPs—arranging to physically transport cash collected by their affiliates to be deposited into the RNP's account.

Greater use of cash increases exposure to ML/TF risks, including reduced visibility of the source of funds as customers are unable to transfer funds from their bank account to the remitter's bank account. Another consequence is the increased cost and complexity faced in collecting funds from affiliates due to the increased reliance on cash-in-transit services.

Eighteen respondents to AUSTRAC's survey of remittance providers indicated that none were currently moving physical cash (that is, cash couriating) from Australia to PICs to pay out remittances. However, AUSTRAC is aware that this is occurring in other remittance corridors, and it is likely this will happen in relation to remittances to PICs if remitters are unable to maintain bank accounts.

²⁹ AUSTRAC does not collect reports on the use of cash when the amount of cash used in a transaction is under \$10,000.

04 PURPOSE OF REMITTANCE



AUSTRAC assesses that the majority of remittances sent to PICs are for the purpose of supporting family and communities. This is based on industry feedback to AUSTRAC, as well as analysis of the customer and transaction profiles for Pacific remittance corridors (as examined in the preceding two sections). There was a very low rate of remittances for business purposes identified in this risk assessment.

In AUSTRAC's survey, 70 per cent of respondents confirmed that family support was the most common purpose for remitting funds. In the ranking system used for the survey, medical support and educational support were ranked a close second and third. A small percentage of remittance providers indicated that trade and business transactions were the number one reason for their transfers.

SUPPORT TO FAMILY AND COMMUNITY

The purpose of family support remittances is generally for assisting immediate and extended family and/or friends. This can also encompass support to the community, highlighting the large reliance Pacific countries have on remittances. Industry experts told AUSTRAC that cultural traditions play a strong role in this. It is almost expected that those earning an income—especially those overseas—will provide support to their family and community. Reporting entities should note that the broader definition of 'family' in the Pacific may mean that the sending customer and receiving customer for an IFTI have different surnames.³⁰

One major remittance provider informed AUSTRAC that 95 to 98 per cent of their Pacific remittances were for family support. According to one large Australian bank, most of the outward flows from Australia to the PIC seen by them were characterised as family support.

MIGRANT WORKERS

The characteristics of the Pacific communities in Australia vary between PICs—according to various open-source material. There are now more ethnic Polynesians from Samoa, Tonga and the Cook Islands living abroad than at home, with many working either permanently or temporarily in Australia.

The Australian Government runs a Seasonal Worker Programme,³¹ providing employment for workers from nine PICs in the agriculture, accommodation and tourism sectors, generally for a few months a year. An industry expert advised AUSTRAC it was common for these workers to send the majority of their income home, either as multiple transactions of small amounts, or as a few transactions of large amounts.

Similarly, some remittance providers told AUSTRAC that many Tongans came to Australia as fruit pickers and often sent their weekly earnings back to their families in Tonga. However, emigration from Papua New Guinea, Solomon Islands and Vanuatu is relatively smaller. The Marshall Islands, Micronesia and Palau have historical ties to the United States of America (USA), so the migrant communities for these countries are likely to be larger in the USA than in Australia.³²

30 Brown, R; Leeves, G; Prayaga, P, *An analysis of recent survey data on the remittances of Pacific island migrants in Australia*, Australian Research Council, <http://www.uq.edu.au/economics/abstract/457.pdf>

31 Department of Employment Seasonal Worker Programme, <https://www.employment.gov.au/seasonal-worker-programme>

32 Browne, C; Mineshima, A, *Remittances in the Pacific Region*, International Monetary Fund, 2007, <http://www.imf.org/external/pubs/ft/wp/2007/wp0735.pdf>

One small remittance provider interviewed by AUSTRAC dealt almost exclusively with migrant workers employed in rural areas.

According to *Protecting the West, Excluding the Rest*, migrants from PICs who come to Australia through worker schemes 'remit the highest percentage of their incomes home of any migrant groups in the country'.³³ A World Bank report assessed that '[r]emittance flows to the PICs are projected to grow strongly, as outflows of workers to Australia and New Zealand have increased'.³⁴

In contrast, one small remitter told AUSTRAC that they have observed a decline in the number and value of remittances, citing increased cost of living expenses in Australia and low wages growth for seasonal workers. They now conduct transactions with values as low as \$30.

'THE AMOUNT OF MONEY MIGRANTS TRANSFER BACK TO DEVELOPING COUNTRIES IS MORE THAN THREE TIMES THE SIZE OF OFFICIAL DEVELOPMENT ASSISTANCE'.³⁵

COMMUNITY REMITTANCES

Throughout the Pacific, there are various ways communities practice a communal culture of giving. In the Solomon Islands and Melanesia, it is referred to as the 'wantok' system (meaning 'one talk'). In Fiji the 'kerekere' system operates like a social security system funded by families. In Tonga, an annual collection by churches—called a 'misinale'—is common. The concepts infer an expectation of reciprocal obligations such as feeding and housing members of both an immediate and extended family.³⁶ Community or social remittances also assist in providing funds to those from non-migrant households, ensuring all families within a community are supported and benefit from migrant work.³⁷

SAMOA—FA'ALAVELAVE

This is the Samoan tradition where family and friends pool together money or gifts to support family in major life events such as weddings, and to provide support when a family has fallen on hard times. Many Pacific Islands share this concept.³⁸

33 Stanley, Rebecca L; Buckley, Ross P, op. cit.

34 World Bank Group, *Migration and Remittances: Recent Developments and Outlook*, International Bank for Reconstruction and Development/The World Bank, 1818 H Street NW, Washington DC, 2016, p 21, <http://pubdocs.worldbank.org/en/661301460400427908/MigrationandDevelopmentBrief26.pdf>

35 Stanley, Rebecca L; Buckley, Ross P, op. cit.

36 Solomon Islands Historical Encyclopaedia 1893-1978, Wantok System, <http://www.solomonencyclopaedia.net/biogs/E000336b.htm> and Duncan, R Prof, 'Kerekere' bad for Fijian business, says professor, *Indian Weekender*, 6 August 2009, <http://www.indianweekender.co.nz/Pages/ArticleDetails/14/333/Fiji/Kerekere-bad-for-Fijian-business-says-Professor>

37 Brown, R; Leevs, G; Prayaga, P, op. cit.

38 Napier, L, *Polynesian athletes face stresses and strains in order to give back to families*, Stuff, 20 December 2015, <http://www.stuff.co.nz/sport/rugby/75254050/Polynesian-athletes-face-stresses-and-strains-in-order-to-give-back-to-families>

Support for the broader community often involves sending funds for occasions such as weddings and funerals, or church collections. Remittances also play a significant role in the aftermath of natural disasters. This often results in an increase in the frequency and amount of remittances, often by the diaspora community.³⁹ There are various ways such funds may be remitted from Australia:

- A community representative (or church or community group) collects funds from multiple individuals (generally around \$100-\$200 per individual) and remits the bulk amount to an individual in the relevant PIC. Such a remittance would appear as a large amount, with the sending customer and receiving customer potentially being unrelated.
- Individuals separately remit funds to one main collector in the PIC. Such remittances would appear as multiple small amounts being sent by (potentially connected) individuals, which are then received in the PIC by one individual.
- Individuals separately remit funds to many different individuals in the PIC community (for example, the aunts, uncles or cousins of a bride and groom). This would appear as many (potentially connected) individuals sending multiple small amounts to many (potentially connected) individuals in the PIC.

‘DURING THE 10 DAYS AFTER CYCLONE EVAN IN SAMOA IN 2012, THE VOLUME OF INCOMING REMITTANCES INCREASED BY 92 PER CENT’.

– *Protecting the West, Excluding the Rest*

COMMUNITY GIVING: LARGE REMITTANCES

Analysis of AUSTRAC data revealed a number of infrequent, but large, transactions to PICs. Some of these exceptional transactions may be bulk collections for occasions of community giving. One Pacific remittance provider told AUSTRAC that 20 per cent of payments they send are from community and church groups, with values ranging from \$3,000-\$5,000. These transactions do not occur regularly, but are an important part of the country's economy and for the recipients who rely on them.

Nonetheless, community remittances could be exploited to conceal criminal activities such as money laundering. AUSTRAC reminds reporting entities that they should apply appropriate processes for such situations. Transaction monitoring programs should have regard to complex, unusual large transactions and unusual patterns of transactions, which have no apparent economic or lawful purpose. This may include occasions when a customer wants to remit pooled funds.

If dealing with a high-risk customer or forming a suspicion, reporting entities should conduct enhanced customer due diligence. This should include understanding the source of funds, among other things. This should be done regardless of whether a remittance provider knows the community or church groups who are sending the funds.

BUSINESS REMITTANCES

Business remittances to the Pacific are very uncommon through remittance providers, according to both AUSTRAC's survey results and analysis of AUSTRAC data. One remittance provider said that less than one per cent of their payments were for business purposes, and these payments would represent purchases for a local business, such as infrastructure for a farm. This remittance provider had seen very little funds flowing to fund start-up businesses.

Remittance to PICs for business purposes primarily flow through a small number of remitters that specialise in business transactions.

39 World Bank Group, op. cit., p 21

05 DETECTION AND MITIGATION



There are two factors AUSTRAC considers when assessing a sector's overall ability to detect and mitigate criminal threats, being the extent to which the sector is subject to AML/CTF obligations; and has implemented AML/CTF systems and controls to detect and mitigate potential criminal activity.

AML/CTF OBLIGATIONS

Remittance providers in Australia are subject to all reporting entity obligations in the AML/CTF Act and Rules. They are also subject to increased scrutiny and oversight by AUSTRAC, through the requirement to be registered on AUSTRAC's Remittance Sector Register (RSR). This additional requirement ensures that AUSTRAC is able to assess the applicant's suitability to provide a designated remittance service in relation to their ability to mitigate ML/TF risk.

Remitters that apply to be registered on AUSTRAC's RSR have an obligation to obtain and keep national police certificates (or foreign equivalent), or national police history checks for all key personnel. A registered entity is subject to compliance assessments and is required to submit reports and maintain an AML/CTF program.

AUSTRAC has the ability to refuse a registration or to apply conditions to a registration, which requires an entity to address any issues that AUSTRAC has identified. AUSTRAC has the power to suspend or cancel the registration of a designated remittance provider from the RSR.⁴⁰ It is an offence to provide a designated remittance service if an individual or business is not registered. To date, the ML/TF risk associated with sending funds to PICs has not been the basis for AUSTRAC to refuse, suspend, cancel or impose conditions on any remittance providers.

⁴⁰ Having regard to:

- whether the continued registration of the person involves, or may involve, a significant money laundering, terrorism financing or people smuggling risk
- one or more breaches by the person of a condition of registration
- other matters specified in the AML/CTF Rules.

For full details on the RSR, see <http://www.austrac.gov.au/businesses/enrolment-and-remitter-registration/remittance-sector-register>

SYSTEMS AND CONTROLS

There is significant variation in the business sizes and models for remittance providers servicing PICs. Consequently, there are significant variations in the AML/CTF systems and processes used by these businesses, as well as their likely effectiveness in mitigating ML/TF risks. AUSTRAC's engagement with Pacific remittance providers for the purpose of this risk assessment—including through responses to AUSTRAC's survey—indicated an overall competent level of awareness of AML/CTF obligations.

Some small remittance providers, who provided services to just one PIC, told AUSTRAC that they personally knew most of their customers, as they were part of the same migrant community. AUSTRAC reminds these entities that they are still required to fully comply with 'know your customer' (KYC) requirements in accordance with the AML/CTF legislation.

Remittance providers are in a unique position to observe unusual behaviour and/or detect potentially suspicious matters. However, only eight of the 23 remittance providers that remit funds from Australia to the Pacific submitted SMRs to AUSTRAC during the sample period. This may be a result of the lower risk posed by these remittances and that some of these reporting entities are small businesses with a limited customer base. Despite this, AUSTRAC urges remittance providers to ensure they are complying with their obligation to identify and submit SMRs to AUSTRAC.

Some stakeholders interviewed by AUSTRAC also noted that remittance providers with regular customers may be hesitant to report on customers personally known to them. AUSTRAC reminds reporting entities that the 'tipping off' provisions in the AML/CTF Act require them to not disclose to a customer that they have formed a suspicion or that they have submitted an SMR to AUSTRAC.⁴¹

One remittance network provider informed AUSTRAC that they had been conducting a 'Know Your Agent' initiative to improve their knowledge and understanding of their international agents. As part of the initiative, they visited the majority of jurisdictions in which they dealt, to assess the effectiveness of the AML/CTF controls used by their agents in each jurisdiction.

⁴¹ AUSTRAC compliance guide, <http://www.austrac.gov.au/suspicious-matter-reports-smrs#tipping-off>

AUSTRAC SURVEY RESULTS ON AML/CTF SYSTEMS AND CONTROLS

IDENTIFICATION

AUSTRAC's survey results reveal that the preferred method of verifying identification was through driver's licences or passports (just under 90 per cent of respondents). 44 per cent of respondents also used an electronic verification system.

Some remittance providers accept online customers, with one provider telling AUSTRAC that they required customers to take a photo of their face while holding up their primary identification document. Another provider required two forms of identification and ran these through electronic verification systems. These can all be acceptable approaches to KYC in relation to the AML/CTF Rules, which require that risk-based controls be used in collecting and verifying KYC information.

TRANSACTION MONITORING

83 per cent of survey respondents used an automated transaction monitoring program. In addition, 66 per cent were using manual transaction monitoring. Using both automated and manual systems generally increases the ability of a reporting entity to protect itself from criminality. 16 per cent of respondents indicated their transaction monitoring was undertaken by another provider. This indicates an affiliate relationship, as RNPs generally undertake transaction monitoring on behalf of their affiliates.

AML/CTF PROGRAMS, SYSTEMS OR CONTROLS

Remittance providers were asked what steps they had taken in the last 12 months to improve their AML/CTF programs, systems or controls.

- 78 per cent had reviewed or updated their ML/TF risk assessments
- 72 per cent had reviewed or updated their reporting procedures for submitting reports to AUSTRAC
- 72 per cent had reviewed or updated their customer identification procedures
- 67 per cent had reviewed or updated their AML/CTF risk awareness training program
- 56 per cent had undertaken an independent review of Part A of their AML/CTF program
- 50 per cent had reviewed or updated their employee and/or affiliate due diligence programs

Two respondents reported making no changes in the last 12 months.

Taken together, this indicates a good understanding of the necessity to remain up-to-date with changes in the AML/CTF environment and the ongoing need to review and update their programs, systems and controls.

STAFF TRAINING

About 45 per cent of survey respondents provided relevant staff with AML/CTF risk awareness training every three to six months. The remaining 55 per cent of respondents indicated that they provided this training annually.

CONCLUSION

This risk assessment has assessed that, at a national level, the ML/TF risks associated with remittances from Australia to PICs sent through remittance providers is **low**. All reporting entities—banks, remittance providers and other financial institutions—that remit funds to the Pacific should use the information in this risk assessment to identify assess and understand their own ML/TF risks.

AUSTRAC encourages banks and other financial institutions to apply a risk-based approach with respect to their remittance provider customers. As emphasised by the Financial Action Task Force (FATF), 'the wholesale cutting loose of entire classes of customer, without taking into account, seriously and comprehensively, their level of risk or risk mitigation measures for individual customers within a particular sector' is not in line with FATF standards.⁴²

The effect of this 'de-risking' trend is an increase in systemic ML/TF risks for remittances by increasing the likelihood of entities using less regulated channels, increasing the use of cash, reducing transparency and limiting monitoring capacities and regulatory oversight.⁴³ This in turn adversely impacts the ability of Australia's law enforcement and national security agencies to respond to ML/TF activity.

While the current level of risk has been assessed as low, continued efforts are required to maintain or further decrease this level of risk. AUSTRAC and the Australian Government will continue to support remittance providers and banks in understanding ML/TF risks and to apply this information in a way that allows for the transparent operation of remittance services to the Pacific.

FEEDBACK

AUSTRAC is committed to continual improvement and values your feedback on its products. We would appreciate notification of any outcomes associated with this report by contacting AUSTRAC via riskassessments@austrac.gov.au


42 Financial Action Task Force, *FATF Clarifies risk-based approach case-by-case, not wholesale de-risking*, 23 October 2014, <http://www.fatf-gafi.org/documents/news/rba-and-de-risking.html>

43 Durner T; Shetret L, *Understanding Bank De-risking and Its Effects on Financial Inclusion*, Global Center on Cooperative Security, November 2015, <http://www.globalcenter.org/wp-content/uploads/2015/11/rr-bank-de-risking-181115-en.pdf>


APPENDIX A: RISK ASSESSMENT METHODOLOGY

The methodology below covers 15 risk factors across five categories: criminal threat environment, customer profile, transaction profile, purpose of remittances, and detection and mitigation. Each risk factor was assessed as low, medium or high, as per the table below. The average of each risk factor gave an overall rating for the respective category. The average of each risk category gave an overall risk rating for the risk assessment.

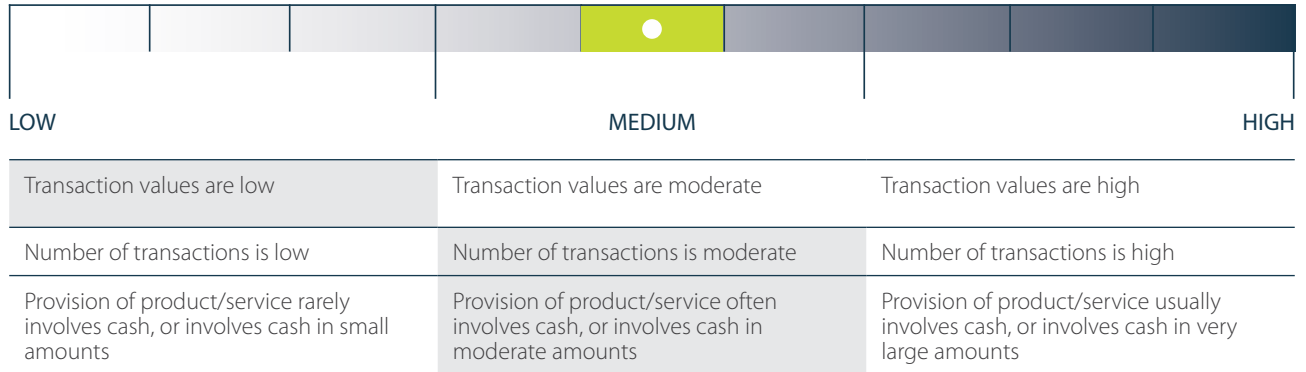
CRIMINAL THREAT ENVIRONMENT

								
LOW			MEDIUM			HIGH		
Low volume of money laundering			Moderate volume of money laundering			High volume of money laundering		
Very few instances of raising and/or transferring funds for terrorism financing			Some instances of raising and/or transferring funds for terrorism financing			Many instances of raising and/or transferring funds for terrorism financing		
Low volume and/or limited variety of other offences			Moderate volume and/or some variety of other offences			High volume and/or large variety of other offences		
Low volume of cyber-enabled criminal activity			Moderate volume of cyber-enabled criminal activity			High volume of cyber-enabled criminal activity		
Unsophisticated tactics and methods used			Some sophisticated tactics and methods used			Highly sophisticated tactics and methods used		
Minimal targeting by serious and organised crime groups and/or foreign criminal entities			Some targeting by serious and organised crime groups and/or foreign criminal entities			Widespread targeting by serious and organised crime groups and/or foreign criminal entities		

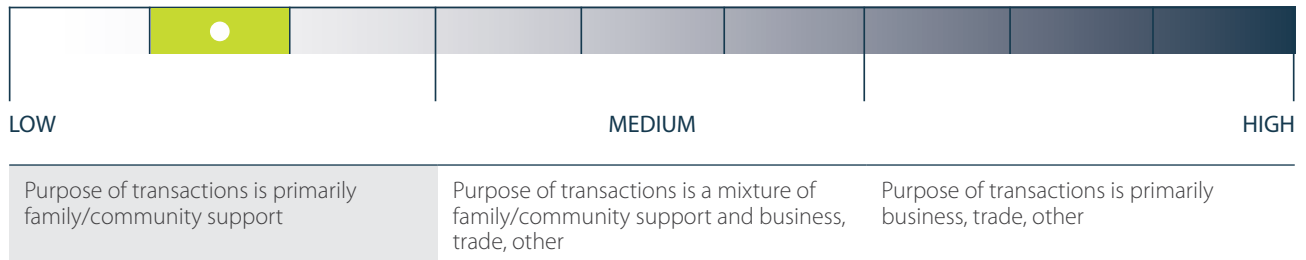
CUSTOMER PROFILE

								
LOW			MEDIUM			HIGH		
Simple customer types, mostly individuals			Mixture of customers types, with some complex companies and trusts			All customer types represented, including large numbers of highly complex companies and trusts		
Very few PEPs			Some PEPs			Many PEPs		
Minimal involvement of agents acting for customers			Moderate involvement of agents acting for customers			Significant involvement of agents acting for customers		

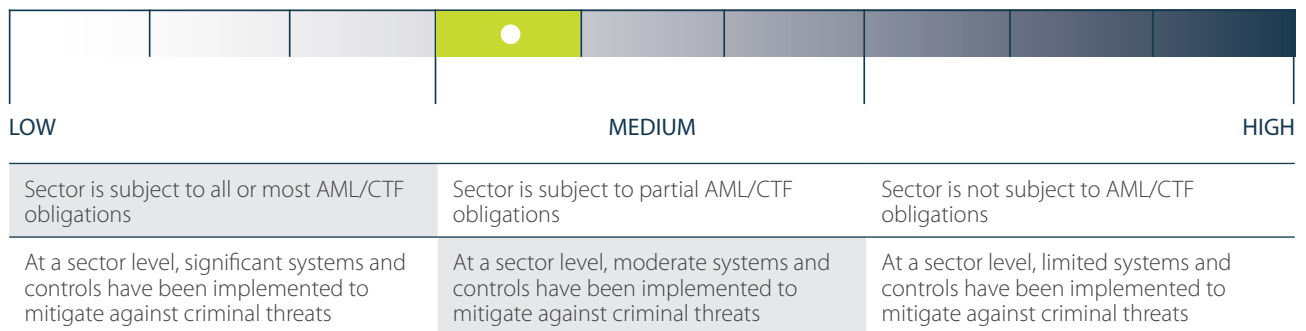
TRANSACTION PROFILE



PURPOSE OF REMITTANCES



DETECTION & MITIGATION



APPENDIX B: ADDITIONAL TABLES AND GRAPHS

FIGURE 14: NUMBER OF REMITTANCE PROVIDERS SENDING FUNDS TO EACH PIC

The first table shows the number of remittance providers sending funds to each PIC. This is based on IFTIs submitted to AUSTRAC from 1 February 2016 to 31 January 2017. As the second table shows, only one remittance provider sent funds to all 14 PICs, while 12 remittance providers sent funds to only one country.

PIC	Number of remittance providers sending to PIC
Cook Islands	7
Federated States of Micronesia	3
Fiji	20
Kiribati	2
Marshall Islands	2
Nauru	1
Niue	1
Palau	5
Papua New Guinea	7
Samoa	11
Solomon Islands	5
Tonga	11
Tuvalu	2
Vanuatu	7

Number of destination PICs	Number of remittance providers
1	12
2	1
3	1
4	2
5	2
6	-
7	-
8	1
9	3
10	-
11	-
12	-
13	-
14	1

FIGURE 15: REMITTANCES AS A SHARE OF GROSS DOMESTIC PRODUCT (2015)⁴⁴

PIC	Share of GDP
Cook Islands	..
Federated States of Micronesia	7.4%
Fiji	5.7%
Kiribati	11.0%
Marshall Islands	13.7%
Nauru	..
Niue	..
Palau	0.8%
Papua New Guinea	0.1%
Samoa	17.2%
Solomon Islands	1.6%
Tonga	27.1%
Tuvalu	10.6%
Vanuatu	2.9%

44 All except Tonga sourced from this World Bank publication: <http://pubdocs.worldbank.org/en/818981492713050366/remittanceinflowsapr2017.xls>

Tonga statistic sourced from: <http://data.worldbank.org/indicator/BX.TRE.PWKR.DT.GD.ZS?locations=TO>

FIGURE 16: NUMBER OF REMITTANCE PROVIDERS SENDING FUNDS TO PICs SINCE 2012

There has been a small decrease in the number of active remittance providers servicing PICs since 2012. The graph below shows the number of remittance providers that facilitated at least one IFTI to at least one PIC for each month since 2012.

From January 2012 until April 2017, a total of 47 remittance providers have been active in remitting to PICs. However, there were no more than 21 remittance providers active during any one month, and 14 remittance providers were active for a total period of less than one year.

For the analysis period of this risk assessment (1 February 2016 to 31 January 2017), a total of 23 remittance providers were active. In previous years, the number of active remittance providers was 25 or more, with the largest number for a single year being 27 active remittance providers in 2013.

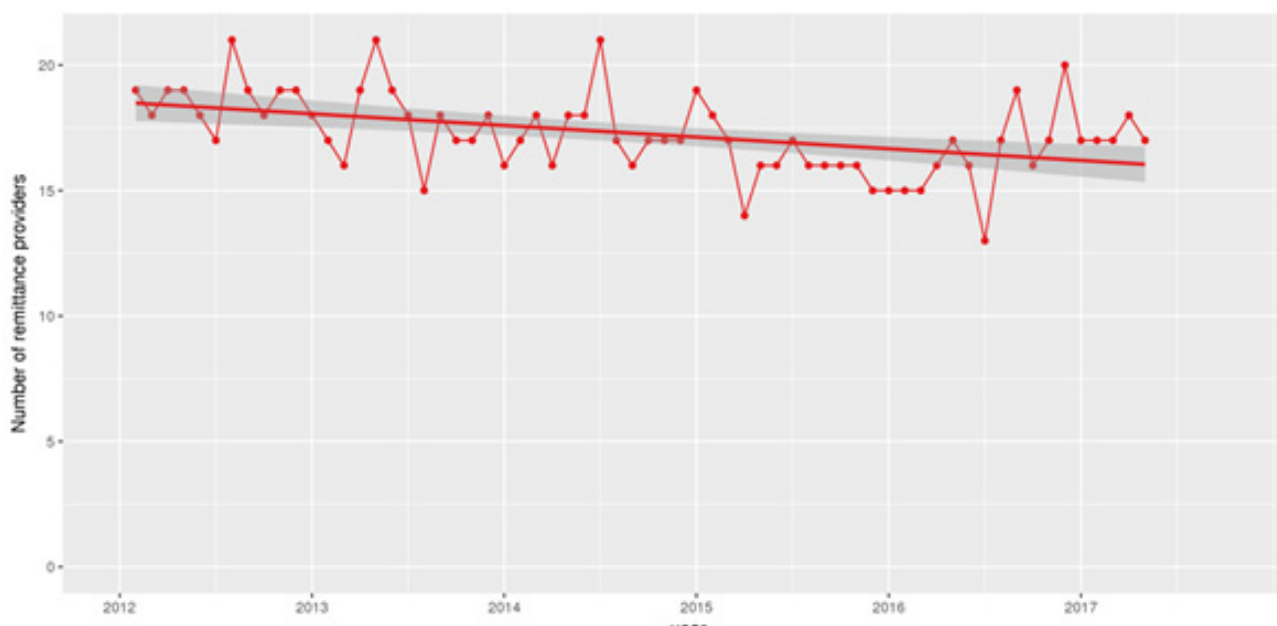


FIGURE 17: NUMBER OF IFTIs FROM AUSTRALIA TO PICs OVER ONE YEAR—BANKS AND REMITTANCE PROVIDERS

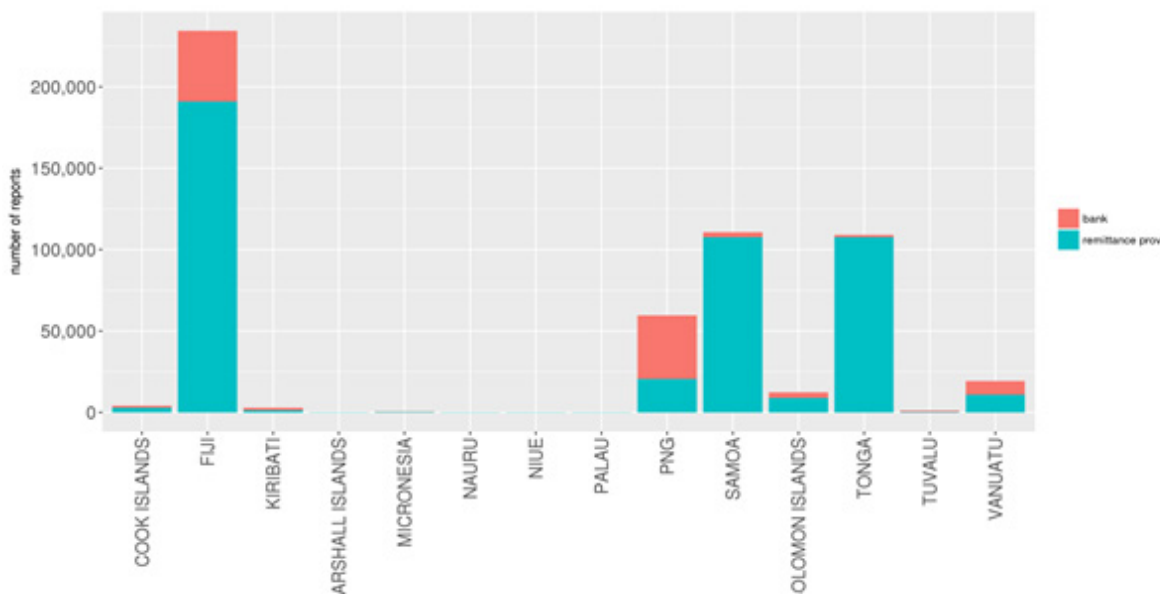


FIGURE 18: VALUE OF IFTIs FROM AUSTRALIA TO PICs OVER ONE YEAR—BANKS AND REMITTANCE PROVIDERS

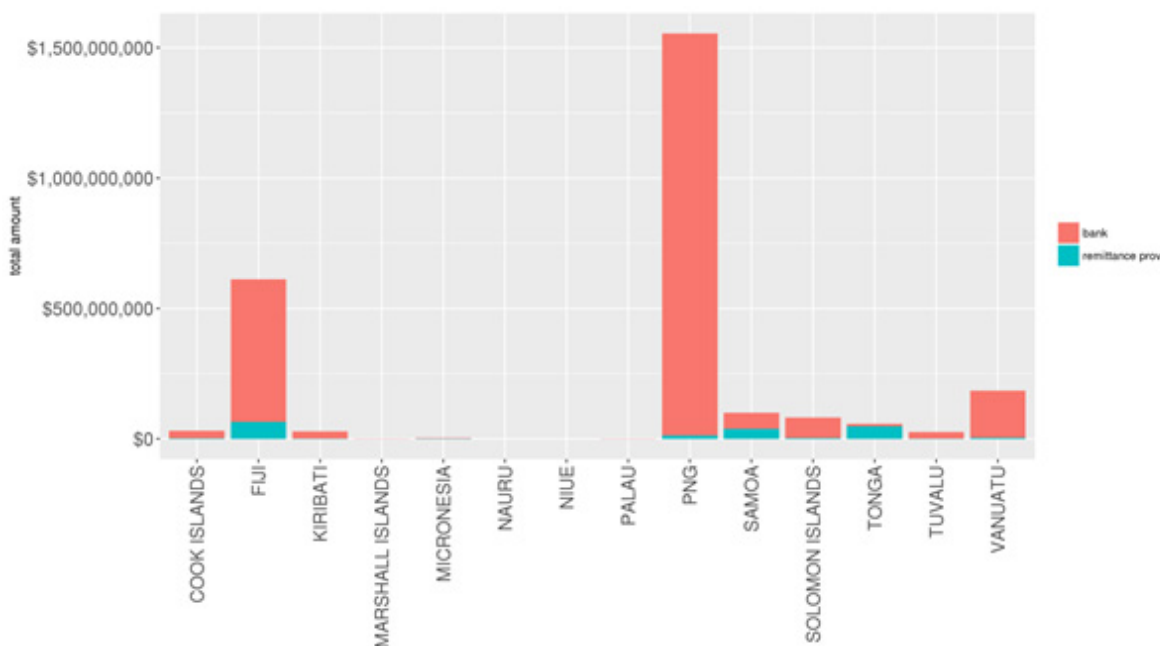


FIGURE 19: PACIFIC ISLAND POPULATION SIZE AND NUMBER OF MIGRANTS LIVING IN AUSTRALIA⁴⁵

Country	Population*	Migrants living in Australia**
Cook Islands	11,700	8,040
Fiji	892,140	71,800
Kiribati	112,420	650
Marshall Islands	52,990	40
Micronesia, Federated States of	104,460	30
Nauru	12,470	740
Niue	1,600	910
Palau	21,290	30
Papua New Guinea	7,619,320	33,510
Samoa	193,230	29,490
Solomon Islands	583,590	2,430
Tonga	106,170	12,440
Tuvalu	9,920	190
Vanuatu	264,650	1,530

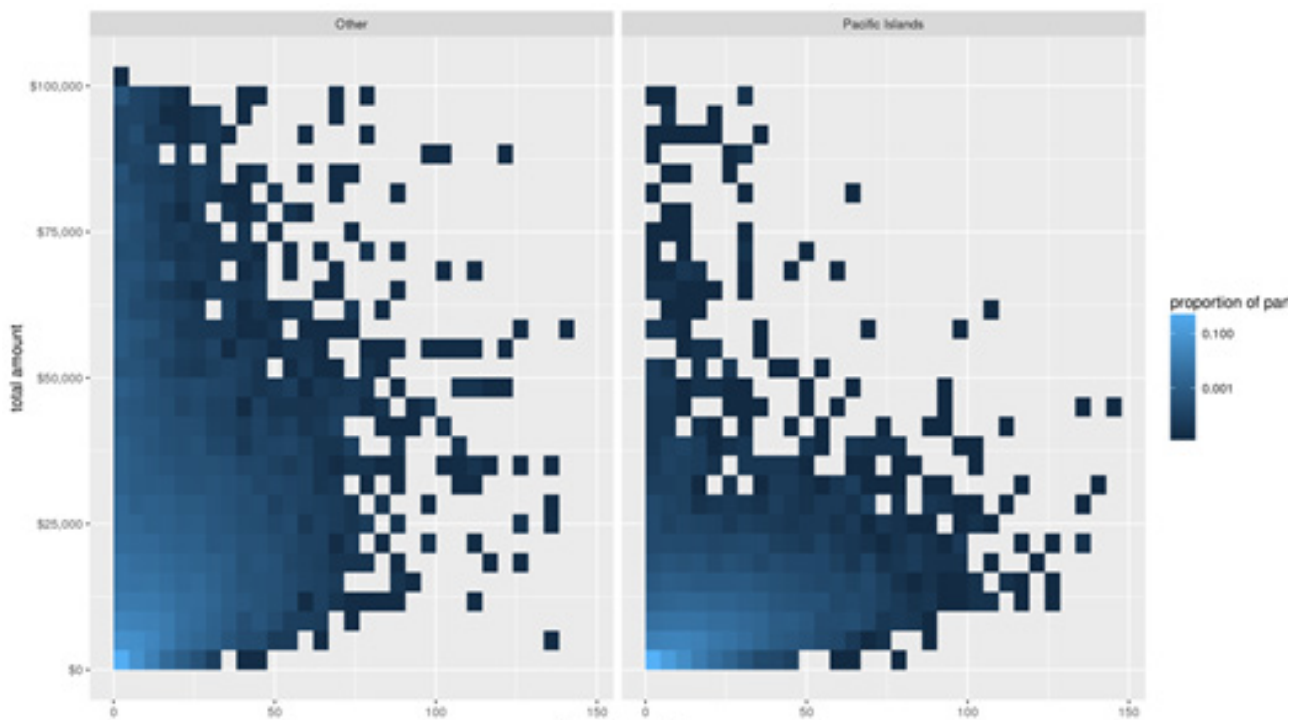
* Population figures from World Bank (http://data.worldbank.org/indicator/SP.POP.TOTL?year_high_desc=false) except for Cook Islands (<http://www.mfem.gov.ck/statistics/social-statistics/vital-stats-pop-est>) and Niue (<http://www.spc.int/prism/niue>)

** Australian Bureau of Statistics (http://stat.data.abs.gov.au/Index.aspx?DatasetCode=ERP_COB)

⁴⁵ An industry expert informed AUSTRAC that people sending money to Samoa or Tonga from Australia may be New Zealand dual nationals, and therefore not represented in data on the number of Samoan and Tongan migrants living in Australia.

FIGURE 20: DISTRIBUTION OF IFTIs BY VOLUME AND VALUE FOR PICs AND OTHER NON-REGIONAL COUNTRIES

This graph indicates that customers remitting to PICs tend to remit a high number of IFTIs with low total amounts compared to the non-regional countries.⁴⁶ In contrast, customers remitting to the nonregional countries were more likely to be remitting large amounts using a small number of IFTIs. This graph also shows that customers who remitted large dollar amounts remitted less frequently compared to the non-regional countries.



46 Countries chosen for this analysis were Greece, Thailand, Senegal, Singapore and South Korea



www.austrac.gov.au
www.dfat.gov.au

NOVEMBER 2017