Strategic analysis brief

Bank de-risking of remittance businesses

Australian Government
AUSTRAC

Strategic analysis briefs

» AUSTRAC strategic analysis briefs provide insights for Government and industry on money laundering and terrorism financing (ML/TF) risks, trends and methods and other issues relating to Australia's AML/CTF framework.

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KEY FINDINGS

Several banks continue to provide banking services to remittance businesses for the purpose of operating their remittance business. These include domestic and foreign owned banks.

The number of remittance businesses using foreign-owned banks to move funds internationally has grown steadily over the last two years. However, the number of remittance businesses using foreign-owned banks is still very small compared to the number using domestic banks.

A small number of domestic and foreign owned banks have closed the accounts of their remitter customers according to the bank's policy to not provide banking services to businesses that operate a remittance business. A number of these banks allow remittance businesses to maintain accounts for non-remittance business purposes.

The largest remittance network providers (RNPs) have all been impacted by the bank account closures of some of their affiliate businesses and in some cases the RNP itself. Many have secured a bank account with another institution to conduct their remittance business.

Bank de-risking activities do not appear to have had a significant impact on international funds flows through the remittance sector.

» There has been no overall reduction in international funds transfer instructions (IFTIs) submitted to AUSTRAC by the remittance sector.

» At the end of August 2015, analysis of reporting to AUSTRAC finds there is no significant change in overall remittance sector transfers in terms of both the volume of transactions and the actual dollar value of funds flows.

CONTEXT

Bank "de-risking" refers to the global trend for banks to close or restrict the accounts of customers including the accounts of remitters.

These closures and restrictions occur for a range of reasons, including perceived reputational, money laundering, terrorism financing and sanctions risks associated with the sector. In some cases, these decisions are related to requirements imposed by international correspondent banks.

There is significant interest in this issue globally. Concerns include the flow of funds between countries, notably from developed countries to developing countries and the implications for financial inclusion. [1]

This report adds to the information in the public domain on this topic. It is not a comprehensive analysis of all of the issues associated with bank de-risking of remitter customers in Australia or globally. The report provides new insights and facts based on transaction report data and an analysis of this data. It also draws on an AUSTRAC survey of nine banks (domestic and foreign-owned) and five RNPs which was conducted to further understand this issue from an Australian context. This report is based on data at a point in time. AUSTRAC will continue to closely monitor the environment.

1 'Financial inclusion' refers to a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers: The Global Partnership for Financial Inclusion on behalf of the G-20, Global Standard-Setting Bodies and Financial Inclusion for the Poor: Towards Proportionate Standards and Guidance, 2011, viewed 13 August 2015, <http://www.gpfi.org/sites/default/files/documents/CGAP.pdf>..

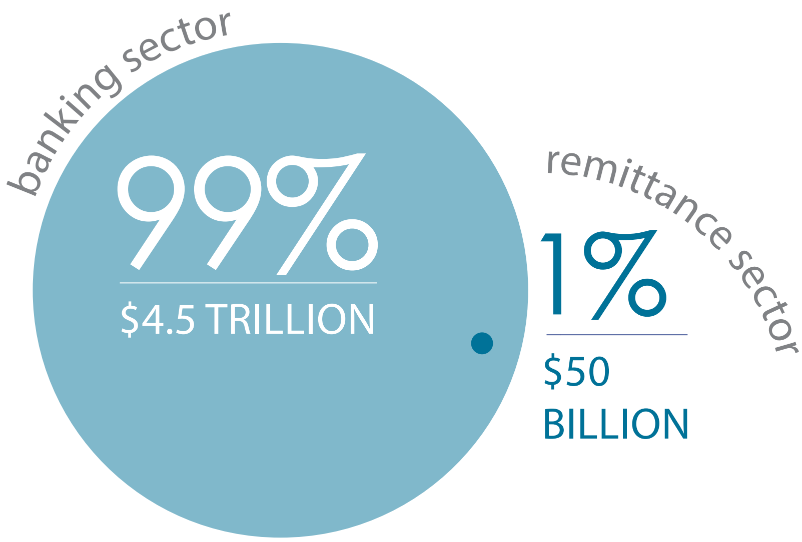
REMITTANCE SECTOR IN AUSTRALIA

Businesses that operate a remittance business captured under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) are required to register with AUSTRAC. As at 31 August 2015, there were:

» 538 independent remittance businesses registered with AUSTRAC. This category of remitter provides remittance services to customers using their own systems and processes. They may have their own branches that they also own and control. An independent remittance dealer may employ staff and is responsible for the operating costs of its branches (such as rent, utilities and services costs and council rates).

» 84 RNPs registered with AUSTRAC. These RNPs provide remittance platforms and systems to 5332 registered affiliate businesses. RNPs operate proprietary funds transfer platforms across a network of small businesses acting in an agency capacity, called 'affiliates', who in turn provide retail remittance services to customers of the network.

In the 2014-15 financial year, IFTI reporting by the remittance sector made up 1 per cent of the total value of all IFTIs reported to AUSTRAC ($50 billion). The banking sector made up 99 per cent of the value of all IFTI reports ($4.5 trillion).



Remitters make up a significant proportion of low value IFTIs sent out of Australia. The charts below show that RNPs dominate the market in terms of IFTIs valued at $500 or less, both the total number of transactions sent and their overall value. Independent remitters and domestic banks have similar market shares in this transaction range. Independent remitters have gradually increased the total number and overall value of transactions in this range since January 2013.

Report count – IFTIs out $500 or less by month by industry sector

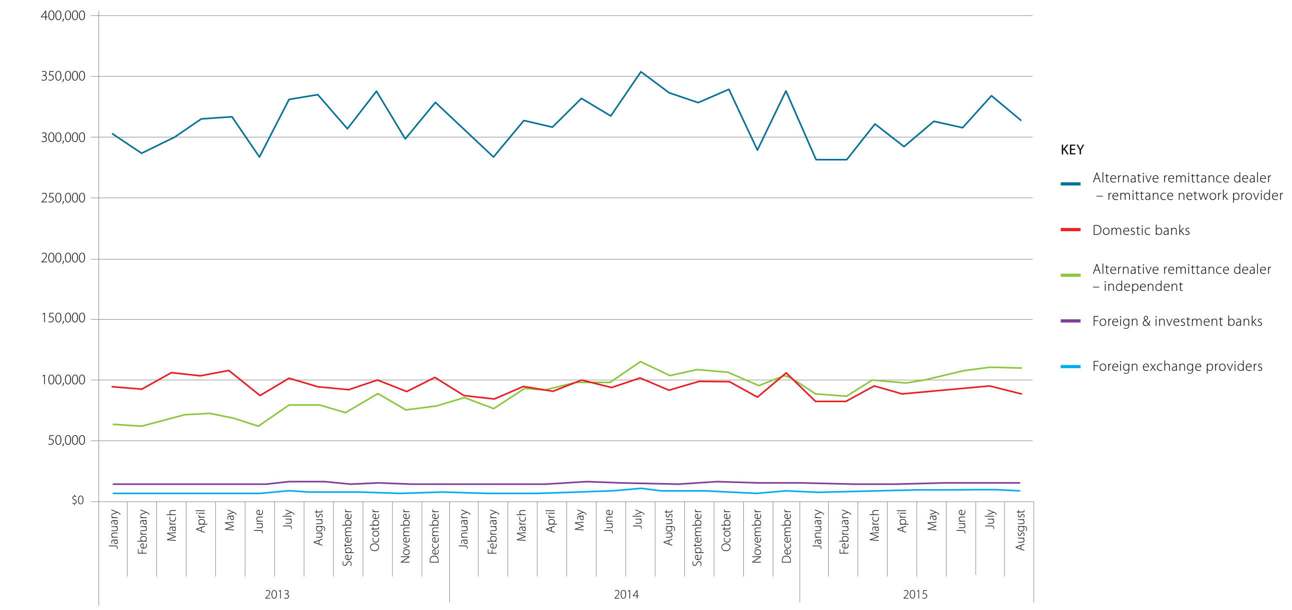


Figure 1– Report count - IFTIs out $500 or less by month by industry sector, 2010–2015

$ value – IFTIs out $500 or less by month by industry sector

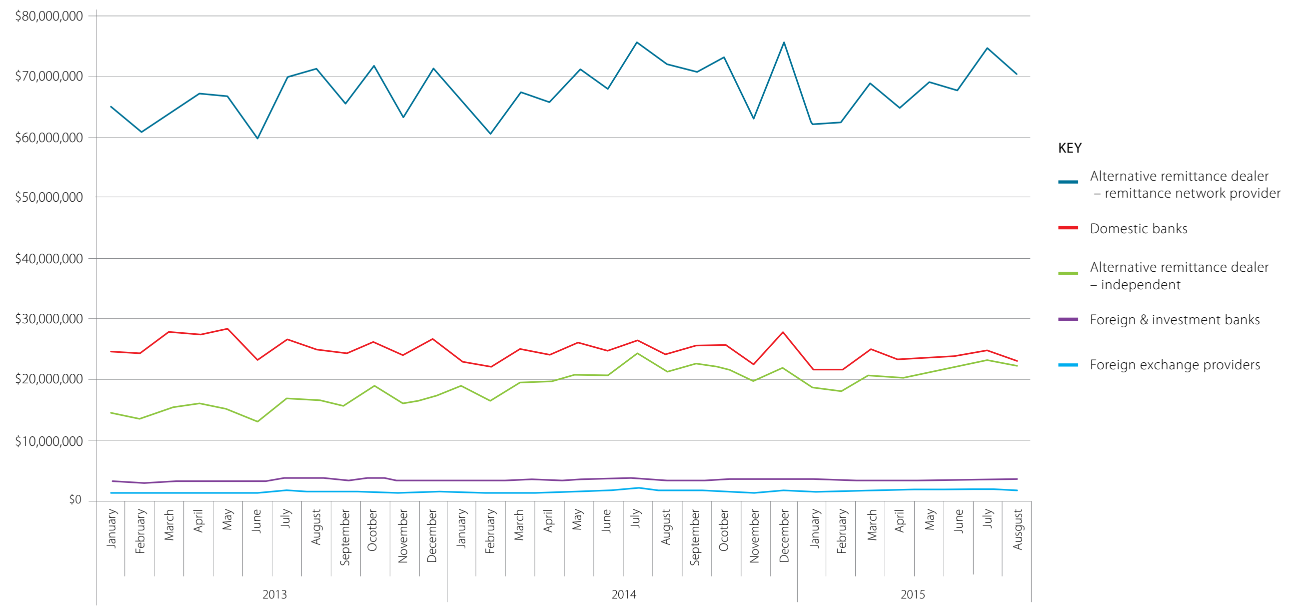


Figure 2 – $ value - IFTIs out $500 or less by month by industry sector, 2010–2015

REMITTANCE SECTOR ACCESS TO BANKING SERVICES

Information in this section is drawn from AUSTRAC data analysis of IFTIs submitted by banks and remitters as well as information provided by nine banks. The majority of these nine banks have the highest international funds activity where remitters are ordering customers of the bank.

A small number of banks surveyed by AUSTRAC maintain a risk appetite policy to not provide banking services to registered remittance businesses for the purpose of conducting international funds transfers for the remitter's customers, that is, operating a remittance business.

» Between January 2014 and April 2015, at least 719 accounts belonging to remittance businesses were closed by banks in Australia.

Some of these banks do, however, allow large numbers of remittance businesses to maintain and operate an account for other purposes, such as in support of a small / mixed business that is not remittance (for example a grocery store).

» As at 1 May 2015, this applied to almost 1700 registered remittance businesses.

Several banks continue to provide banking services to registered remittance businesses for the purpose of operating a remittance business.

Between January 2014 and March 2015, some 21 banks submitted IFTI reports to AUSTRAC where the customer in the report was a registered remittance business. In the April to June 2015 quarter the number of banks providing this service for remitter customers fell to 14.

Banks that continue to provide these services include major banks, second tier Australian banks and foreign-owned banks. Rather than adopting a strict policy on exiting remitters, some of these banks have advised that they carry out robust due diligence on their remitter customers on a case-by-case basis.[2]

While Australian domestic banks report the vast majority of IFTIs for remittance businesses, the number of these entities using foreign-owned banks to move funds internationally has grown steadily over the last two years.

2 This is in line with the AUSTRAC Statement on this issue released on 25 November 2014, <http://www.austrac.gov.au/news/austrac-statement> .

IMPACT OF BANK DE-RISKING ON RNPS

Information in this section was provided by the five largest RNPs representing almost 5000 affiliates.

RNPs and their affiliates represent a significant proportion of the remittance sector.

Feedback from RNPs surveyed by AUSTRAC indicates that bank de-risking has generally added to their business costs and increased the complexities of doing business.

Several RNPs also indicated that customers have been inconvenienced by having access to fewer outlets, providers or channels. Some RNPs also advised that bank de-risking has created an uncertain operating environment.

The five largest RNPs advised that only a small proportion of their affiliate networks have had their bank accounts closed. Overall, this amounts to approximately 137 affiliates that have been affected out of almost five thousand, or less than 3 per cent. In two cases, the RNP itself had its banking services withdrawn. The institutions that withdrew these services to the affiliates and the RNPs included Australian banks, credit unions and a foreign-owned bank. These are indicative findings only as the RNPs advised that they may not have accurate statistics for this issue.

Many of the affected affiliates and RNPs were able to secure banking arrangements with another bank that allowed them to continue operating their remittance business. A small number of affiliates ceased operations.

Some RNPs advised that as a result of bank de-risking, they now provide their affiliates with more options for settling accounts and moving funds, including cash deposits into accounts, cheques, and electronic funds transfer.

IMPACT OF BANK DE-RISKING ON INTERNATIONAL FUNDS FLOWS THROUGH THE REMITTANCE SECTOR

The long-term trend in IFTI reporting from the remittance sector is shown in Figures 3 and 4.

The charts track the volume of the reports, and dollar value of IFTI reports, submitted by three remitter subgroups – RNPs, independent remittance businesses, and foreign exchange dealers operating as remitters.[3]

From mid-2014 there was a downward trend in the volume of IFTI reports submitted by independent remittance businesses (indicated by the blue line in Figure 3).

However, between March 2015 and June 2015, this reversed. Reporting returned close to the five-year trend.

As at the end of August 2015, there has not been a significant change to the five-year trend in the overall volume or value of funds transferred into and out of Australia by all three subgroups.

Bank de-risking activities do not appear to have had a significant impact on international funds flows through the remittance sector.

3 The last subgroup 'foreign exchange dealers operating as remitters' has been developed for this report. It is a group of independent remitters that also provide foreign exchange services, provide wholesale remittance services to other remitters, and provide high dollar value services to larger and / or corporate clients. They are referred to as 'foreign exchange providers' in the charts in this report.

5 year profile – IFTI Report count by Remitter cohort

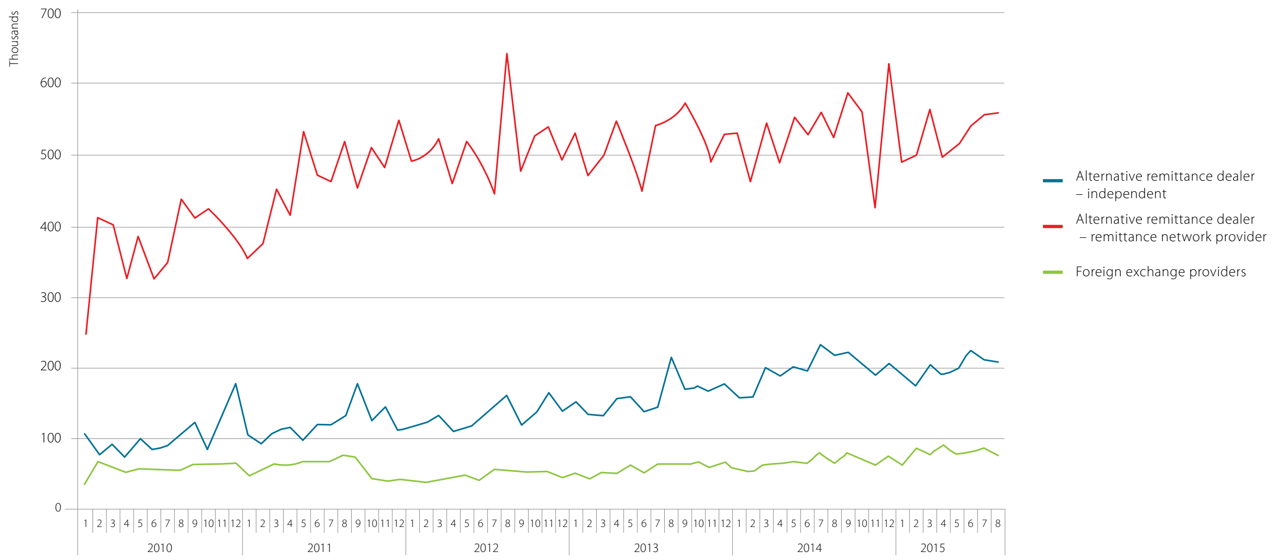


Figure 3 – Five-year profile of IFTI report volumes, by remitter cohort, 2010–2015

5 year profile – IFTI $ value by Remitter cohort

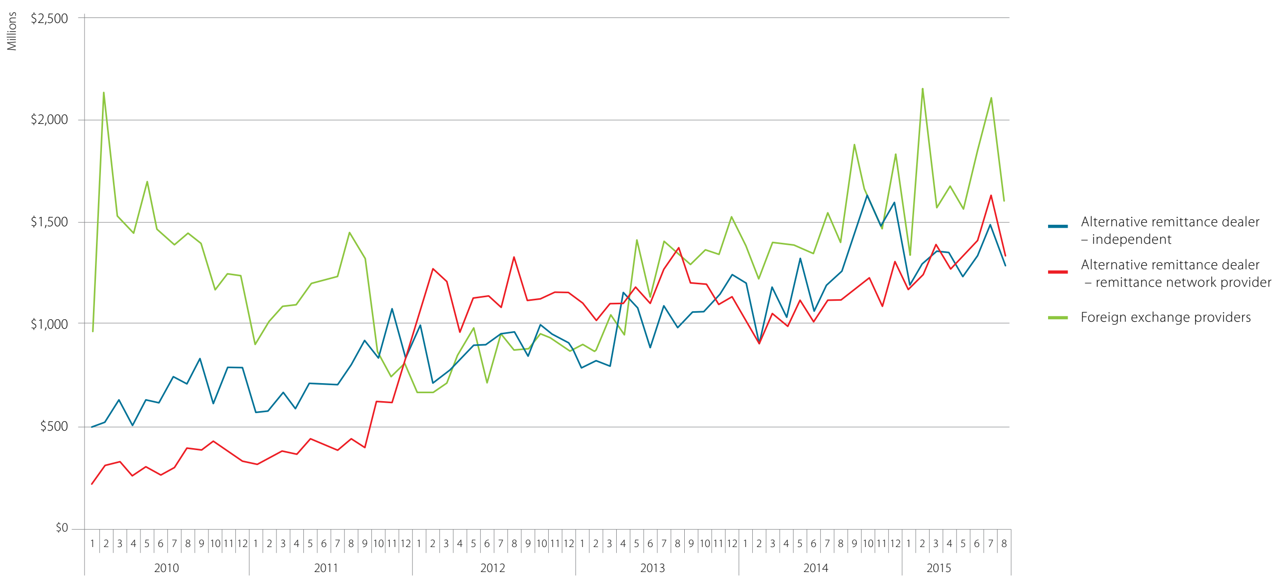


Figure 4 – Five-year profile of IFTI report $ value reported, by remitter cohort, 2010–2015

Top 22 remitters

Another way of categorising the remitter population is by looking at those remitters that submit the largest number of IFTI reports to AUSTRAC.

A group of 22 remitters (the 'top 22 remitters') is responsible for approximately 75 per cent of the total volume of reports, and 85 per cent of the total value of IFTI reports submitted to AUSTRAC each year.

This group is made up of large corporate remitters, both RNPs and independent remittance businesses.

There has been little change in IFTI trends from the top 22 remitters over the last two and a half years (see the red lines in Figures 5 and 6 below). There is some volatility in these charts but the long-term trend is clearly upwards

Other remitters

Remitters outside the top 22 ('the rest') account for approximately 25 per cent of the number of reports and 15 per cent of the value of IFTI reports per year.

This group is described as 'other remitters' in the charts below and include all remitters that submit IFTIs to AUSTRAC apart from the top 22. These remitters are generally smaller remittance businesses.

As the green line in Figure 5 suggests, there was a contraction in the number of IFTIs submitted by remitters, outside the top 22, between July and November 2014. This decline was broken in November 2014 and has since remained stable.

The number of IFTIs submitted by this cohort between January 2014 and June 2015 (approximately 200,000 per month), is comparable to the number submitted between January 2013 and August 2014.

Conclusion

There is no evidence in these charts that bank de-risking of remitters is causing a significant change in the volume or value of IFTIs submitted by the top 22 remitters or 'the rest'.

IFTI profile – Report count - Top 22 vs. other remitters

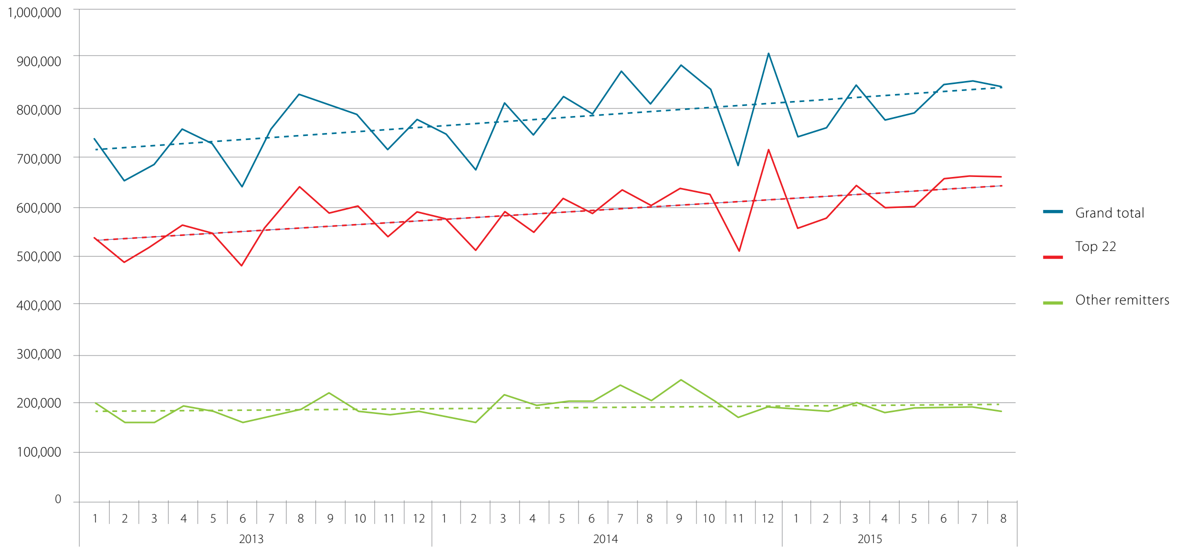


Figure 5 – IFTI profile – Report count - Top 22 remitters vs. rest

IFTI profile – $ value - Top 22 vs. other remitters

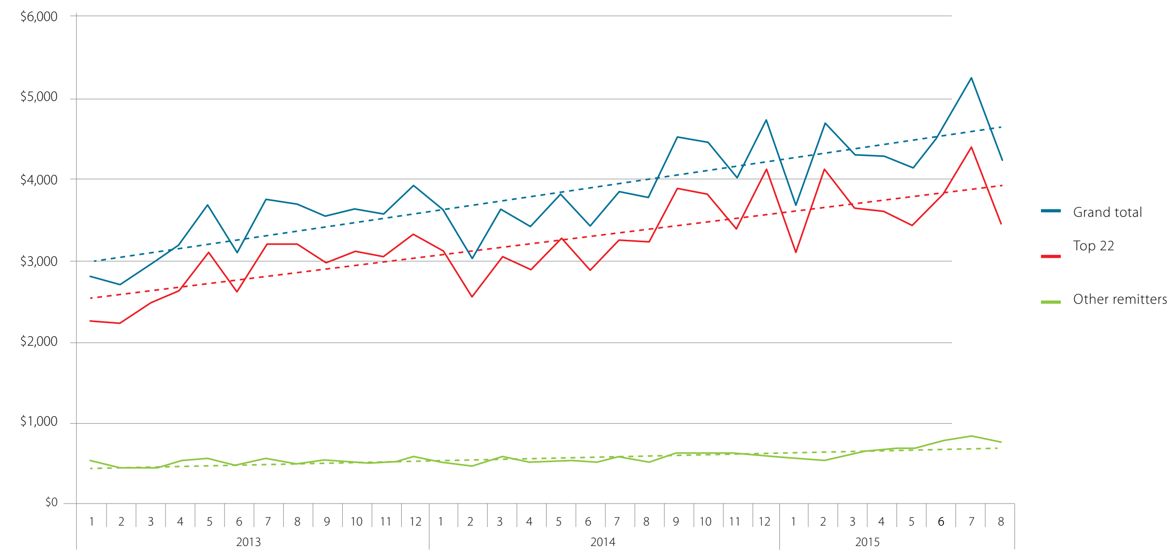


Figure 6 – IFTI profile – $ value - Top 22 remitters vs. rest

WHY ARE DE-RISKING ACTIONS NOT SHOWING UP IN THE DATA?

There is a range of possible reasons that bank de-risking activities have not translated into decreased total funds flows through the remittance sector, such as:

» Remittance businesses whose banking services have been withdrawn:
  - have secured new banking arrangements and have continued to operate their remittance business;
  - accounted for only small IFTI volumes and values that do not impact on the total figures; or
  - were not submitting IFTIs to AUSTRAC prior to being exited.[4]

» Customers of exited remitters have moved their business to other remitters.

CASE STUDY: FUNDS FLOW TO 12 COUNTRIES

In conjunction with several government partners, AUSTRAC examined several regions that are the recipients of remittances from Australia.

Since 2014, the overall **value of funds** being remitted through banks and remitters:

» increased flows from Australia to nine of these countries examined

» decreased flows to three of the 12 countries examined.

The Pacific (Solomon Islands, Fiji, Papua New Guinea, Samoa, Tonga and Vanuatu)

Domestic banks and RNPs are responsible for 90+ per cent of outward funds flow to these countries in the Pacific.

IFTI value: Banks have by far the largest market share of IFTI value sent to these countries, except Tonga, where IFTI value is split between banks and RNPs.

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4 Not every registered remittance business has the commercial circumstances that require them to submit an IFTI to AUSTRAC. For example, where a registered remittance has not yet commenced the remittance business or has stopped the remittance business for reasons other than having its banking services withdrawn. In addition, affiliates of RNPs have their IFTI reporting conducted by the RNP.

IFTI volume: RNPs have by far the largest market share of IFTI volume to these countries, except Solomon Islands and Vanuatu, where IFTI volume is split between banks and RNPs. Banks dominate IFTI volumes sent to Papua New Guinea.

A relatively small number of independent remittance businesses sent funds to countries in the Pacific between January 2014 and May 2015. However, the number of remitters sending funds each month has generally been stable, or has reduced only slightly over the period.

Asia (Philippines, Vietnam, Indonesia, Sri Lanka and Pakistan)

IFTI value: Banks have the largest market share of IFTI value sent to these countries, except Pakistan, where IFTI value is split between the banks and remitters (RNPs and independents).

IFTI volume: RNPs have by far the largest market share of IFTI volume to the Philippines and Vietnam. Banks are responsible for the greatest IFTI volume to Indonesia. Remitters (RNPs and independents) dominate IFTI volumes to Sri Lanka and Pakistan.

There has been a reduction in the number of independent remittance businesses sending funds to countries in Asia each month.

Taking the Philippines as an example, in 2014, the minimum number of independent remittance businesses sending funds to the Philippines was 32 (in January 2014) and the maximum was 39 (in July 2014).

The corresponding minimum and maximum number of remitters sending funds to the Philippines between January and May 2015 was 24 and 31. There have been similar reductions across all five Asian countries.

Africa (Somalia)

Independent remittance businesses and RNPs are responsible for the greatest share of both IFTI value and volume sent to Somalia. There is almost no involvement of banks.

The number of independent remittance businesses sending funds to Somalia fell slightly over the last 18 months. Throughout 2014, between 21 and 24 remitters sent funds each month. This fell to between 16 and 20 remitters per month between January and May 2015.

It is highly likely that the decline in the number of independent remittance businesses sending funds to Somalia and the five Asian countries noted above is partially attributable to bank de-risking.

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