MANAGING, NOT AVOIDING RISK – IMPROVING FINANCIAL INCLUSION

RESERVE BANK
OF NEW ZEALAND
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This industry update outlines Reserve Bank guidance on de-risking and AML/CFT Risk Appetite.

The Reserve Bank's Statement of Intent (SOI) outlines a number of issues and challenges surrounding de-risking and the denial of banking services to Money Transfer Operators (MTOs) and Fintech businesses (including Virtual Asset Service Providers (VASPs)). We believe that a blanket ban on MTOs and VASPs goes against the purpose of the AML/CFT Act, as it erodes confidence in the financial system by delegitimising these businesses as well as impairing the detection and deterrence of ML/TF by forcing activity underground.

The Reserve Bank is committed to working with banks and where appropriate with MTOs and VASPs, to address concerns and break down barriers to financial inclusion and innovation that are negatively impacting New Zealanders and particularly the Pacific Island communities.

While it might seem like a strong risk appetite for banks to say that they don't provide banking services to MTOs or VASPs, in many cases this doesn't actually lead to good outcomes for all stakeholders, especially people who need those banking services.

Based on observations seen in the industry, MTOs who have their accounts closed by a bank, do not tend to disappear. Instead, they find other avenues to operate their business, and continue to send funds. Those MTOs will open accounts at other banks, they will open accounts in business names that claim to be something they are not or they will start utilising personal accounts and the accounts of family members.

If an MTO is forced to move 'underground', then their activity begins to look more unusual or suspicious. By being underground and trying to avoid detection, the nature of their payments get masked and can make transaction monitoring and sanctions screening more difficult.

Reporting Entities are constantly playing catch up, identifying accounts operated by MTOs and going through a closure process, only for the activity to move to a different account until it is discovered.

Evidence shows that this is a timely and costly process and the Reserve Bank believes this time could be better spent elsewhere.

Almost six years ago, the Reserve Bank published a statement regarding de-risking that remains true today but there are concerns that there is a lack of awareness about these messages. A key extract from the statement is outlined below:

'Money remitters present varying degrees of risk. The Reserve Bank considers that banks' obligations under the AML/CFT Act require measured risk management and do not justify blanket de-risking. With appropriate systems and controls in place, banks should be able to manage and mitigate the money laundering and terrorism financing risks posed by many money remitters. If banks are de-risking to avoid rather than manage and mitigate those risks, then that would be inconsistent with the intended effect of the AML/CFT Act.'

The 2020 SOI acknowledges the importance of remittances to many Pacific economies (for some it can represent up to 40% of GDP). We outline how over the next 12 months, we will work with both domestic and international stakeholders to develop guidance and work with remitters in the Pacific region to help them be more compliant with regional legal obligations. This includes exploring potential policy, legislative and regulatory changes to facilitate reduction in de-risking, and providing coordination and subject matter expertise around digital identity verification and payment and settlement systems.

There are three key messages for industry on this important issue – please speak to the Reserve Bank as early as possible if reviewing your risk appetite for these sectors. Challenge your ability to manage the risk rather than simply avoid it, and talk to us you see options where we could help influence the risk reward proposition you are facing.

Background

This content has been adapted from a presentation to reporting entities attending the RBNZ AML/CFT workshop, 9 November 2020. It was also presented to Bank directors and senior executives at an industry workshop in December 2020.