

The Decline of Correspondent Banking in Pacific Island Countries

Technical Paper 5: Survey of Central Bank Officials and Summary of Responses

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1 The Survey

In order to establish the current situation with regard to Correspondent Banking in each of the Pacific Island Forum countries, and to seek views on important issues and appropriate responses, a survey was created. The survey was hosted on the website ‘SurveyMonkey’¹ and consisted of 14 questions, with multiple ‘tick box’ responses and requests for the relevant officials to provide further detail where possible. The full survey questionnaire is provided in the Annex.

The survey was initially circulated by Pacific Island Forum to members on April 4th, with a request to respond by April 28th. Only one country responded by the deadline. Various follow up requests were made by World Bank officials, which led to Country 2 responding with a preliminary and then a follow-up response, on May 2nd and May 4th. After some further prompting, Country 3 responded on May 16th. No other responses have been received at the time of writing, July 22nd 2023.

¹ <https://www.surveymonkey.com/>

2 Survey Responses

We are grateful to those officials who took the time to respond. The questions are reproduced in the tables below, with a summary of the responses (and comments if any, in inverted commas).

Questions 1 and 2 identified the country and the respondents.

Question 3 Please indicate if the loss of Correspondent Banking Relationships (CBRs) has had any of the following impacts on your local banking or remittance industry:	
(i) Restriction of access to remittance (ii) Restriction of access to trade finance (iii) Increased costs of remittances/money transfers (iv) Use of less transparent channels/Increased AML risks (v) None of the above	
Country 1	(i), (ii), (iii) and (iv)
Country 2	No discernible impact. "Correspondent banking relationships is a banking license condition"
Country 3	(i) and (iv)

Question 4 Please indicate if any of the following technologies have ameliorated the concerns outlined in Q3 above:	
(i) eKYC (ii) Mobile money (iii) Increased online access (iv) Please specify any other helpful technologies	
Country 1	did not feel technology had helped
Country 2	(ii) and (iii). "a revised CDD standard was issued in September 2022 and eKYC is being worked on".
Country 3	(ii) and (iv). Noted "use of a virtual correspondent bank - The Currency Cloud Limited"

Question 5 of the survey sought data on a variety of aspects of correspondent banking, as follows:

1. Number of unique counterparts - (2010-2022).
2. Number of unique counterparty countries - (2010-2022).
3. List of currencies being traded with (2010-2022).
4. Total number of banks (or list of banks) providing correspondent banking services (2010-2022).
5. Volume of transactions processed through SWIFT (2010-2022).
6. Value of transactions processed through SWIFT (2010-2022).

It was recognised that these data might not be readily available to the PIF countries and that they would need to request it from SWIFT, and the survey contained instructions on how to do so. In the

event, none of the three countries was able to provide the data. Country 3 reported that it had contacted SWIFT, but by the time of filling in the survey (May 16th) had not received a response.

Question 6 Has there been a change in the location of correspondent banks in any of these years? (i) 2017 (ii) 2018 (iii) 2019 (iv) 2020 (v) 2021 (vi) 2022 (vii) None of the above Please give details if possible	
Country 1	2019 and 2020. "Westpac Australia withdrew from offering CBR to the Pacific island countries"
Country 2	"Country 2 has 4 commercial banks only and all banking services provided for in the banking licenses have been adequately met".
Country 3	2021. "one bank's USD account was closed and the NRBT has allowed it to transact in NZD; another bank has been successful in opening a USD account with The Cloud Limited"

Question 7 Has there been a change in the nature of CBRs in any of these years? See Q8 below for examples of such changes. (i) 2017 (ii) 2018 (iii) 2019 (iv) 2020 (v) 2021 (vi) 2022 (vii) None of the above Please give details if possible	
Country 1	2019 and 2020.
Country 2	No
Country 3	2021. "from 2021, transactions are no longer in USD and the virtual correspondent bank has been developed"

Question 8 If yes to Q7, please provide details of the changes to the nature of CBRs, for example:

- (i) restrictions on types of transactions
- (ii) speed of processing
- (iii) amount of service fees
- (iv) other restrictions:

Country 1	(i), (ii) "very slow, delayed transactions", and (iii)
Country 2	n/a
Country 3	(i), (ii) and (iii). "the virtual correspondent bank is faster than SWIFT, unless a compliance requirement is triggered, but charges are higher than SWIFT". They noted a "very strong and detailed AML compliance requirement; demand of proper documentation and online verification is high".

Question 9 Drivers of loss of CBRs: Please rank according to what you understand to be the main cause of any losses in CBRs experienced by your country since 2017.

- (a) Settlement, liquidity and credit risks faced by the correspondent bank
- (b) AML compliance risks - regulatory burden
- (c) AML compliance risks - lack of KYC transparency
- (d) Commercial – general lack of profitability of the relationship
- (e) Other issues

Ranked as:

- (i) Least important
- (ii) Somewhat important
- (iii) Quite important
- (iv) Very important
- (v) Most important

Please comment

Country 1	(d – ii), (a – iv), (b&c – v)
Country 2	(a&d - iii), (b&c – iv). "their banks had not faced any CBR loss"
Country 3	(a - i), (d – iv), (b&c – v)

Question 10 Future risks: How do you view the risk of further losses of CBRs by banks in your jurisdiction?

- (i) Increased
- (ii) Decreased
- (iii) Stable

Please comment

Country 1	(i). "costly and delayed international finance and trade transactions"
Country 2	(iii). "CBR losses have not featured in [our country] in the past, if it is to happen in the future it will most likely be related to the strict global AML/CT requirements"
Country 3	(i).

Question 11 Impact on businesses and community: Have businesses in your country experienced increased difficulty in accessing trade finance or making international payments as a result of the loss of CBRs?

- (i) Yes
- (ii) Somewhat
- (iii) No

Please comment

Country 1	(i). "increased cost and delayed business transactions"
Country 2	(iii). ""Access to trade finance in terms of FX liquidity due to structural issues in [our] economy, and not as a result of CBR loss"
Country 3	(i).

Question 12 Have any changes in CBRs or service impacted negatively on remittance flows to the country?

- (i) Yes
- (ii) Somewhat
- (iii) No

Please comment

Country 1	(i). "Increased cost"
Country 2	(iii).
Country 3	(i).

Question 13 explored progress made with reforms aimed at countering the loss of CBRs. Responses are summarised in Table 1.

Table 1 Responses to “Is your country considering and/or implementing any of the following?”

	Country 1	Country 2	Country 3
New/improved national payments system	Major progress made	Major progress made: We have recently moved to RTGS	Some progress made
More compliance training and capacity building for domestic institutions	Some progress made	Major progress made, To support the changes we have introduced in the payment space.	Might be implemented in the longer term
Government funding for risk management by correspondent banks	Some progress made	Rejected	Not considered
Codes of Conduct for banks re CBRs	Might be implemented in the short term	Major progress made: CBR are conditions of a banking license.	Not considered
Improved compliance for remitters, non-profit organisations and other affected businesses	Might be implemented in the short term	Major progress made: Any service provided in the payment space has to be licensed by the central bank, through its oversight of the payment system.	Might be implemented in the short term
A national eKYC utility	Might be implemented in the short term	Major progress made: eKYC has been rolled out in our commercial banks.	Some progress made
Digital national identity register	Might be implemented in the short term	Not considered	Some progress made: this is an ongoing e-government project
Improvement to collection of CBR statistics	Might be implemented in the short term	Not considered	Not considered

Question 14 explored views on how helpful particular reforms might be, responses are summarised in Table 2.

Table 2 Responses to “How helpful do you feel the following reforms would be to retain current and/or attract new CBRs?”

	Country 1	Country 2	Country 3
New/improved national payments system	Very helpful	Very helpful	Might help
More compliance training and capacity building for domestic institutions	Very helpful	Very helpful	Somewhat helpful
Government funding for risk management by correspondent banks	Very helpful	Not relevant/unlikely to be helpful: COUNTRY 2's experience suggests it's better run outside of mainstream government.	A useful idea
Codes of Conduct for banks re CBRs	Very helpful	Very helpful	Somewhat helpful
Improved compliance for remitters, non-profit organisations and other affected businesses	Very helpful	Very helpful	Very helpful
A national eKYC utility	Very helpful	Very helpful: need to move with the times	Very helpful
Central Bank Digital Currency	Very helpful	A useful idea, Might help	Somewhat helpful
Digital national identity register	Very helpful	A useful idea, Might help	Very helpful
Improvement to collection of CBR statistics	Very helpful	Might help	Very helpful

Annex: Actual Questions used in the Survey

* 1. Country reflected in this response (please select)

* 2. Contact details of person completing the form. These will not be published or shared, but may be used by the research team to reach out to you in case any clarification is required. Please provide your name, position, email and phone including country code.

* 3. Please indicate if the loss of Correspondent Banking Relationships (CBRs) has had any of the following impacts on your local banking or remittance industry

- ☐ Restriction of access to remittance
- ☐ Restriction of access to trade finance
- ☐ Increased costs of remittances/money transfers
- ☐ Use of less transparent channels/Increased AML risks
- ☐ None of the above

Please specify any other impacts

* 4. Please indicate if any of the following technologies have ameliorated the concerns outlined in Q3 above

- ☐ eKYC
- ☐ Mobile money
- ☐ Increased online access
- ☐ Please specify any other helpful technologies

☐ None of the above

* 5. Please could you request from Mr Suresh Rajalingam (Head of Oceania Region, APAC, SWIFT (suresh.rajalingam@swift.com)) the following information in relation to correspondent banking relationships in your jurisdiction: 1. Number of unique counterparts (MT 1,2,7,9) - (2010-2022). 2. Number of unique counterparty countries (MT 1,2,7,9) - (2010-2022). 3. List of currencies being traded with (2010-2022). 4. Total number of banks (or list of banks) providing correspondent banking services (2010-2022). 5. Volume of transactions processed through SWIFT (2010-2022). 6. Value of transactions processed through SWIFT (2010-2022). When received, please provide either as a spreadsheet attachment to n.morris@atasia.org or fill in below. If you are unable to obtain the data, or unable to share it, please indicate in the relevant box.

2010

2011

2012

2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	

Separate attachment Y/N?

Unable to obtain data

Unable to share data

* 6. Has there been a change in the location of correspondent banks in any of these years? (please tick)

- ☐ 2017
- ☐ 2018
- ☐ 2019
- ☐ 2020
- ☐ 2021
- ☐ 2022
- ☐ None of the above

Please give details if possible

* 7. Has there been a change in the nature of CBRs in any of these years? See Q8 below for examples of such changes. (Please tick each year of change)

- ☐ 2017
- ☐ 2018
- ☐ 2019
- ☐ 2020

☐ 2021

☐ 2022

☐ Please give details if possible

☐ None of the above

8. If yes to Q7, please provide details of the changes to the nature of CBRs, for example:

restrictions on types of transactions:

speed of processing:

amount of service fees:

other restrictions:

* 9. Drivers of loss of CBRs: Please rank according to what you understand to be the main cause of any losses in CBRs experienced by your country since 2017

	Least important	Somewhat important	Quite important	Very important	Most important
Settlement, liquidity and credit risks faced by the correspondent bank	<input type="radio"/> Settlement, liquidity and credit risks faced by the correspondent bank	<input type="radio"/> Settlement, liquidity and credit risks faced by the correspondent bank	<input type="radio"/> Settlement, liquidity and credit risks faced by the correspondent bank	<input type="radio"/> Settlement, liquidity and credit risks faced by the correspondent bank	<input type="radio"/> Settlement, liquidity and credit risks faced by the correspondent bank
Please comment	<input type="text"/>				
AML compliance risks - regulatory burden	<input type="radio"/> AML compliance risks - regulatory burden	<input type="radio"/> AML compliance risks - regulatory burden	<input type="radio"/> AML compliance risks - regulatory burden	<input type="radio"/> AML compliance risks - regulatory burden	<input type="radio"/> AML compliance risks - regulatory burden
Please comment	<input type="text"/>				
AML compliance risks - lack of KYC transparency	<input type="radio"/> AML compliance risks - lack of KYC transparency	<input type="radio"/> AML compliance risks - lack of KYC transparency	<input type="radio"/> AML compliance risks - lack of KYC transparency	<input type="radio"/> AML compliance risks - lack of KYC transparency	<input type="radio"/> AML compliance risks - lack of KYC transparency
Please comment	<input type="text"/>				
Commercial – general lack of profitability of	<input type="radio"/> Commercial – general lack of	<input type="radio"/> Commercial – general lack of	<input type="radio"/> Commercial – general lack of	<input type="radio"/> Commercial – general lack of	<input type="radio"/> Commercial – general lack of

	Least important	Somewhat important	Quite important	Very important	Most important
the relationship	profitability of the relationship	profitability of the relationship	profitability of the relationship	profitability of the relationship	profitability of the relationship

Please comment

Other issues

☐

Other issues

☐

Other issues

☐

Other issues

☐

Other issues

☐

Other issues

Please comment

* 10. Future risks: How do you view the risk of further losses of CBRs by banks in your jurisdiction?

☐

Increased

☐

Decreased

☐

Stable

Please comment

* 11. Impact on businesses and community: Have businesses in your country experienced increased difficulty in accessing trade finance or making international payments as a result of the loss of CBRs?

☐

Yes

☐

Somewhat

☐

No

Please comment

* 12. Have any changes in CBRs or service impacted negatively on remittance flows to the country?

☐

Yes

☐

Somewhat

☐

No

Please comment

* 13. Is your country considering and/or implementing any of the following?

	Unlikely to be implemented	Might be implemented in the longer term	Might be implemented in the short term	Some progress made	Major progress made	Not considered	Rejected
New/improved national payments system	<input type="radio"/> New/improved national payments system	<input type="radio"/> New/improved national payments system	<input type="radio"/> New/improved national payments system	<input type="radio"/> New/improved national payments system	<input type="radio"/> New/improved national payments system	<input type="radio"/> New/improved national payments system	<input type="radio"/> New/improved national payments system

Please comment

	Unlikely to be implemented	Might be implemented in the longer term	Might be implemented in the short term	Some progress made	Major progress made	Not considered	Rejected
More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions	<input type="radio"/> More compliance training and capacity building for domestic institutions

Please comment

Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks	<input type="radio"/> Government funding for risk management by correspondent banks
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Please comment

Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs	<input type="radio"/> Codes of Conduct for banks re CBRs
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Please comment

Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses	<input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses
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Please comment

A national eKYC utility	<input type="radio"/> A national eKYC utility Unlikely to be implemented	<input type="radio"/> A national eKYC utility Might be implemented in the longer term	<input type="radio"/> A national eKYC utility Might be implemented in the short term	<input type="radio"/> A national eKYC utility Some progress made	<input type="radio"/> A national eKYC utility Major progress made	<input type="radio"/> A national eKYC utility Not considered	<input type="radio"/> A national eKYC utility Rejected
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Please comment

Digital national identity register	<input type="radio"/> Digital national identity register Unlikely to be implemented	<input type="radio"/> Digital national identity register Might be implemented	<input type="radio"/> Digital national identity register Might be implemented	<input type="radio"/> Digital national identity register Some progress made	<input type="radio"/> Digital national identity register Major progress made	<input type="radio"/> Digital national identity register Not considered	<input type="radio"/> Digital national identity register Rejected
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Please comment

* 14. How helpful do you feel the following reforms would be to retain current and/or attract new CBRs, if implemented?

	Not relevant/unlikely to be helpful	Might help	A useful idea	Somewhat helpful	Very helpful
Codes of Conduct for banks re CBRs <input type="radio"/> Codes of Conduct for banks re CBRs <input type="radio"/> Codes of Conduct for banks re CBRs <input type="radio"/> Codes of Conduct for banks re CBRs <input type="radio"/> Codes of Conduct for banks re CBRs <input type="radio"/> Codes of Conduct for banks re CBRs <input type="radio"/> Codes of Conduct for banks re CBRs					
Improved compliance for remitters, non-profit organisations and other affected businesses <input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses <input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses <input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses <input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses <input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses <input type="radio"/> Improved compliance for remitters, non-profit organisations and other affected businesses					
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Other - please add <input type="radio"/> Other - please add <input type="radio"/> Other - please add <input type="radio"/> Other - please add <input type="radio"/> Other - please add <input type="radio"/> Other - please add <input type="radio"/> Other - please add					