



PACIFIC ISLANDS FORUM

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11 August 2025

Dr. Sean Turner  
Committee Secretary  
Senate Economics Legislation Committee  
Parliament House  
Canberra ACT 2600  
Australia.

Dear Dr. Turner,

### **PIFS SUBMISSION OF THE PACIFIC BANKING GUARANTEE BILL 2025**

The Pacific Islands Forum Secretariat is pleased to present its submission to the Senate Economics Legislation Committee for the Inquiry into the Pacific Banking Guarantee Bill 2025.

2. We appreciate the opportunity to contribute to the Committee's consideration of the Bill, which addresses an important aspect of financial connectivity and economic resilience for the Pacific region. Our submission welcomes the intent of the Bill as a proactive step towards safeguarding financial stability and acknowledges its potential to strengthen regional banking resilience and offers observations on areas where further clarity would be beneficial.

3. We appreciate the opportunity to contribute to this important discussion and look forward to continued engagement in strengthening the Pacific region's financial systems.

4. The Pacific Islands Forums acknowledges the Committee for its engagement on this matter and look forward to ongoing dialogue to ensure that the Bill supports sustainable, inclusive and secure banking services across the Pacific.

Yours sincerely,

Zarak Khan  
**Director Programmes & Initiatives**



## PACIFIC ISLANDS FORUM SECRETARIAT

### Pacific Islands Forum Secretariat Submission on the Pacific Banking Guarantee Bill 2025

- The Pacific Islands Forum Secretariat (PIFS) welcomes the opportunity to provide preliminary comments on the proposed **Pacific Banking Guarantee Bill 2025**.
- The PIFS is currently implementing the **Pacific Strengthening Correspondent Banking Relationships (CBR) Project**, funded by the World Bank, to address the withdrawal of correspondent banking relationships from the region. We therefore provide these comments in light of both our policy mandate and our technical understanding of regional banking sector challenges facing the Pacific.
- We **strongly welcome** the intent of the Bill and **commend** the Australian Government for taking proactive legislative steps to safeguard financial connectivity and stability in the Pacific. The withdrawal of correspondent banking services continues to pose considerable risks to cross-border payments, remittance flows, and the broader integrity of financial systems across Pacific Island Countries (PICs).
- The Forum Secretariat, through the Forum Economic Ministers and Pacific Leaders have consistently raised concerns about the withdrawal of correspondent banking relationships across the Pacific. The impacts of this trend are particularly severe for Smaller Island States such as Nauru and Republic of Marshall Islands, where the absence of secure, sustainable, and affordable cross-border payment channels undermines government financial operations, limits access to remittances for households, disrupts international trade and economic connectivity, and poses challenges to meeting global financial integrity standards and requirements.
- We believe this legislation sends a clear and timely signal of Australia's continued commitment to Pacific financial resilience and stability. If implemented alongside technical and institutional support, the Bill has the potential to significantly bolster regional efforts to maintain connectivity and access to the global financial system.
- We would be happy to provide additional regional updates and insights as and when required.
- Having said that, there is need for clarity on aspects of the proposed Bill. The purpose of the Bill is to offer financial guarantee(s) to any Australian Bank that provides banking services to PICs (plus Timor Leste); the potential amount of the guarantee(s) to be available under the legislation is unlimited and the period is indefinite (although nominally ten years). Exactly what is to be guaranteed is vague being *"related to the*

*ADI's banking business in the Pacific region (including conducted through its subsidiaries)".* The Minister stated in his speech that the Bill would enable the Government to guarantee an Australian bank's business in the Pacific—either directly or through its subsidiaries—**against the unlikely possibility of a default in the region**, - which may force them to shut their operations. The Minister also notes that eligible Australian banks will pay a fee to the Government for the guarantee, and that it is not a subsidy.

- It is not clear whether this could be related to losses on defaulting loans, losses on other operations (possibly including CBRs), or what else might be covered (possibly reopening Australian bank branches in some PICs). It makes clear that the guarantee(s) will be negotiated but it doesn't appear to be based on any specific defining parameters. However, the Explanatory Memorandum suggests that the risks are low, and the guaranteed amounts are likely to be small; but offers no evidence of why this should be the case. We would presume that the Australian Government has done some due diligence on the risks, but this is not mentioned. It is possible that the Australian Govt sees this as a form of banking Community Service Obligation to PICs, in which case, we would have expected there to be some specific "service obligations" to be defined so that a notional costing could be calculated along with a risk profile for each type of risk to be covered by a guarantee.
- From the CBR project perspective, it is not clear how this might interface with the project and the expected subsidisation of CBR services by the initial emergency or the long-term providers. In particular, firstly, the guarantees potentially serve to underwrite what the CBR project is aiming to do (and could encourage Australian registered banks to apply), but secondly, on the other hand, could make it more complicated in that Australia might underwrite CBR/banking operations for the bigger markets (with Australia registered banks), but might not offer guarantees for the smaller markets (with local banks) thereby reducing the expected economies of scale for the project's CBR providers to smaller markets.
- There is a reference to this proposal having been discussed with the World Bank, and while we welcome the proposal, at this stage, further clarity would also be useful.

*11 August 2025*