

SENATE STANDING COMMITTEE ON LEGAL AND CONSTITUTIONAL AFFAIRS  
ATTORNEY-GENERAL'S PORTFOLIO

**Group: 3**

**Program: Other Agency**

**Question No. BE15/093**

**Senator Collins asked the following question at the hearing on 27 and 28 May 2015:**

1. It is my understanding that remittance accounts across the country are being closed is this correct?
2. Why are remittance accounts being closed?
3. Have law enforcement agencies voiced concerns over the use of remittance providers?
4. Is the remittance industry regulated?
5. Who regulates the remittance industry?
6. What practices are in place to ensure transparency and visibility of funds transferred.
7. What practices are in place to prevent the misuse of remittance accounts?
8. I understand that a working group has been created in attempts to resolve the situation in a collaborative approach.
9. Who are the members of this group?
10. What progress has this working group made?
11. What were the Terms of Reference?
12. I understand that the last working group meeting has been scheduled for June. What can we expect the outcome of this meeting to be?
13. We understand that remittance accounts have continued to be closed is this correct?
14. Will the closure of these remittance accounts force the practice underground?
15. Will this then pose potential concerns for law enforcement agencies?
16. What practices have been put in place to prevent this?
17. What evidence exists to suggest that remittance accounts are being used to launder money and finance terrorism?
18. Is the financial intelligence and data provided by remittance providers of any use to law enforcement agencies?

**The answer to the honourable senator's question is as follows:**

1. Some financial institutions have closed the accounts of remittance providers, or certain remittance providers.
2. The precise reasoning for deciding to close an account is a matter for the financial institution. However, there are a range of factors that may contribute, including:
  - increased costs for financial institutions and concerns over profitability
  - adjusted risk appetite of correspondent banking partners in light of regulatory and enforcement action
  - concerns as to possible breaches of anti-money laundering and counter-terrorism financing (AML/CTF) legislation and/or financial sanctions violations
  - money laundering/terrorism financing or sanctions risks of remitter customer exceeds bank's risk appetite
  - actions of other banks (domino effect)

- other types of business or commercial considerations, such as reputational considerations resulting in withdrawal from a certain sector or customers.
3. Yes. Alternative remittance service providers are recognised internationally and domestically by law enforcement agencies and by AUSTRAC (Australia's financial intelligence unit) as being particularly vulnerable to abuse and exploitation by criminal and terrorist groups for money laundering and terrorism financing purposes.

AUSTRAC's *Money laundering in Australia 2011* report identifies the use of remittance providers as a major money laundering channel and found that criminals have targeted this sector in order to move illicit money around the world. AUSTRAC's *Terrorism financing in Australia 2014* report identifies the remittance sector as a key channel used to transfer funds for terrorism financing.

The Eligo National Taskforce (a joint task force that includes the Australian Crime Commission, AUSTRAC and Australian Federal Police) was established specifically to address risk associated with the alternative remittance sector, which was assessed as being among the highest risk of exploitation for money laundering in Australia by serious and organised crime groups. In under two years Eligo seized more than \$580 million worth of drugs and assets, including \$26 million in cash. The task force has also disrupted 18 serious and organised crime groups and identified 128 criminal targets previously unknown to law enforcement.

4. Yes, the remittance industry is regulated by AUSTRAC under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).
5. The remittance industry is regulated by AUSTRAC under the AML/CTF Act.
6. The AML/CTF Act requires remittance providers to report all incoming and outgoing international funds transfer instructions (IFTIs) to AUSTRAC, regardless of their value. An IFTI provided to AUSTRAC includes a broad range of information, including the customer name, date of birth and address, the amount of the transaction and the name and address of the recipient of the funds.

Remittance providers must also report all transactions involving \$10,000 or more in cash. As many remittance providers rely on the use of bank accounts to facilitate their transfers, there is an extra layer of transparency and visibility to AUSTRAC in the reporting of IFTIs by financial institutions. In these IFTIs, financial institutions report their customer's (that is, the remittance provider's) movements of funds into and out of Australia.

7. AUSTRAC administers a comprehensive registration scheme of remittance providers, which empowers the AUSTRAC CEO to refuse, suspend or cancel, or impose conditions on registration.

The AML/CTF Act also requires regulated businesses (including banks and remittance providers) to take steps to prevent the misuse of accounts. This includes:

- **customer due diligence** – the requirement to collect and verify 'know your customer' information (identification) and the ongoing monitoring of transactions
- **reporting** – suspicious matters, threshold transactions and international funds transfer instructions

- **record keeping**
  - **establishing and maintaining an AML/CTF program** – designed to identify, mitigate and manage the money laundering/terrorism financing risks a particular business may face.
8. The Government formed the Working Group on Remitter Account Closures in December 2014 to facilitate effective liaison and information sharing between the remittance and banking sectors on issues relating to de-risking. The purpose of the Working Group is to open lines of communication between the remittance and banking sectors and consider the practical measures remitters could undertake at each step in the remittance process to ensure their businesses fit within the acceptable risk tolerance of banks.

The Working Group has focused on small- to medium-sized remitters, rather than large remitters and network providers. To support this, the Government has continued to work to address the international aspects of this issue, including by participating in a Financial Action Task Force (FATF) study on de-risking, engaging with other countries including the USA and UK about possible solutions, and driving the financial inclusion agenda through the G20.

9. The members are the Attorney-General's Department, AUSTRAC, the Department of Foreign Affairs and Trade, Australian Crime Commission, Australian Bankers' Association, Somali Money Remitters Association, and Australian Remittance and Currency Providers Association.
10. The Working Group has focused on mapping the remittance process, identifying risks present at each step of particular transaction chains, and considering practical measures that could bring the remittance industry within the acceptable risk tolerance of banks. Remitters are continuing to work with the Australian Bankers' Association to draft a 'best practice' model for remittances, identifying potential risk points and considering risk controls. Additionally, AUSTRAC has developed a scoping study and set up a specialised analysis process to consider the scale of de-risking in Australia and any impacts on international funds flows.
11. The Terms of Reference are:

### **Purpose and scope**

Initiated in December 2014, the working group was formed to facilitate effective liaison and information sharing between government, a number of small to medium sized remitters and the banking sector on issues related to de-risking. The group focuses on small to medium sized remitters rather than large remitters and network providers.

The working group's objectives are:

- To identify the domestic factors influencing small to medium sized alternative remittance sector bank account closures.
- To facilitate discussion and information sharing on the international and domestic challenges (both legal and commercial) faced by remitters and banks worldwide.
- To identify issues and consider any practical measures and processes that Government, remitters and financial institutions could undertake to facilitate

remittances and financial inclusion while also satisfying domestic and international AML/CTF obligations.

- To share available information on measures used by other jurisdictions (e.g. Canada, NZ, UK, USA, Europe) to satisfy their domestic and international AML/CTF obligations.
- To identify anti-money laundering, counter-terrorism financing and sanctions risks that exist in the remittance sector, and any measures that could be implemented domestically to mitigate these risks. This includes:
  - preparing a profile of the remittance sector having regard to its size, scope and structure
  - mapping the remittance process and identifying risks present at each step of particular transaction chains
  - considering any practical measures that could bring the remittance industry within the acceptable risk tolerance of banks.

#### **Term**

- The current Working Group's initial term will end on 30 June 2015, with consideration given to extension at that time.
12. The Working Group's term ended on 30 June 2015. However, at least one further meeting will be held to consider the outcomes of the FATF's study on de-risking and its public statement on the issue. While the de-risking issue has not been resolved, a communication channel has been opened between the banking and remittance sectors, which can be utilised to continue discussions between those sectors.
  13. Some financial institutions are exiting certain remitter customers. AUSTRAC has conducted analysis on the impacts of these closures on the overall aggregate funds transfers coming into and leaving Australia. At present, the closure of remitter accounts does not appear to have a significant impact on the overall aggregate funds transfers coming into and leaving Australia. AUSTRAC research indicates that many remitters continue to maintain accounts with financial institutions.
  14. Current data shows that this is not happening. De-risking tends to affect independent remitters who are generally smaller and less established than other remittance businesses (such as Western Union or MoneyGram). The market share of these independent remitters is less than half of 1% of the value transferred coming into and leaving Australia (the banking sector accounts for 99% of total international funds transfers). AUSTRAC data shows that while there has been a slight decrease in the number of independent remitters operating over the last 18 months, this has not resulted in a decline in the aggregate value of funds flows out of Australia. This indicates that money is still being remitted through the formal system.
  15. The data does not give rise to these concerns.
  16. A viable alternative remittance sector still exists in Australia. Larger alternative remitters with global reach continue to operate and there has been no decline in aggregate funds flows out of Australia. The continuation of a cheap, efficient and lawful means of sending money overseas remains the most effective way of preventing displacement to unlawful alternatives.

The provision of a remittance service while unregistered is a criminal offence under the AML/CTF Act. AUSTRAC employs a number of methods to identify unregistered

remittance providers, including through the assessment of remittance networks, analysis of data provided by banks and registered remittance providers, and information received from law enforcement agencies and the general public.

17. Remitters are globally recognised as being particularly vulnerable to abuse and exploitation by criminal and terrorist groups for money laundering and terrorism financing purposes (see response to question 2).

National and state law enforcement agencies have conducted a number of investigations involving laundering funds through remittance accounts – some remittance providers have been complicit in these activities. Other remittance providers have been found to be vulnerable to unwittingly facilitating money laundering and terrorism financing as a result of failing to have systems and controls that comply with the AML/CTF Act.

In the past 12 months, AUSTRAC has cancelled the registration of seven remittance providers due to significant money laundering or terrorism financing risks. One cancellation arose following the conviction of the remittance provider's sole director for money laundering.

To date AUSTRAC has also taken the following actions in relation to remittance providers:

- issued three infringement notices totalling \$684,600 for breaches of the AML/CTF Act
- refused the registration of seven remittance providers
- imposed conditions on the registration of 17 remittance providers.

18. Information provided by all regulated entities under the AML/CTF Act, including remittance providers, is used by AUSTRAC's partner agencies which include law enforcement, national security, human services and revenue agencies.