



**Te Tari Taiwhenua**  
**Internal Affairs**



# NZ-to-Pacific Money Remittance

Sub-sector risk assessment –  
money laundering and  
terrorism financing



**Te Kāwanatanga  
o Aotearoa**  
New Zealand Government

NOTE: This risk assessment is intended to provide a summary of risk factors and general overview. It does not assess every risk relevant to the NZ-to-Pacific Island money remittance corridor. It does not set out the comprehensive obligations under the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009, associated regulations and codes of practice. It does not constitute, nor should it be treated as, legal advice or opinion. The Department of Internal Affairs (DIA) accepts no liability for any loss suffered as a result of reliance on this publication.

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# Executive summary

1. The overall money laundering (ML) and terrorism financing (TF) inherent risk rating for the NZ-to-Pacific remittance corridor is assessed as Medium.
2. A Medium level of risk is consistent with the characteristics of the NZ-to-Pacific remittance corridor before the application of anti-money laundering (AML) and countering financing of terrorism (CFT) controls.
3. While the overall level of inherent ML/TF risk for the sub-sector is assessed as Medium, low-value (under \$1,000) remittance transactions from the Pacific Island diaspora or seasonal workers to the Pacific Islands for family support, familial or cultural events are assessed to be of Low inherent ML/TF risk.
4. This risk assessment only relates to money remitters. The risk assessment does not assess remittances sent by banks or remittances involving jurisdictions other than Pacific Island countries. Nor does the risk assessment assess the criminal threat environment within each individual Pacific Island country.
5. The risk assessment relates to the risk factors and vulnerabilities associated with the NZ-to-Pacific remittance corridor. It is important to understand that risk is dynamic and risk factors may change over time. This risk assessment should be read along with the Department of Internal Affairs (DIA) Financial Institutions Sector Risk Assessment (SRA) 2019.<sup>1</sup>
6. Money remitters should be aware of the key ML/TF vulnerabilities and high-risk factors identified in the Financial Institutions SRA and the NZ Police Financial Intelligence Unit (FIU) National Risk Assessment (NRA) 2019.<sup>2</sup> Most relevant to money remitters in the NZ-to-Pacific corridor are the use of cash and international payments.
7. Part 4 of this document provides an overview of risk factors to help money remitters understand their ML/TF vulnerabilities and undertake a risk assessment. Part 5 lists potential 'red flags' in customer behaviour and transaction patterns that should prompt further investigation when complying with AML/CFT obligations.
8. Key terms, acronyms and concepts are detailed below. A full list of AML/CFT abbreviations and acronyms is included in the Financial Institutions SRA.

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1 [https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/\\$file/Financial-Institutions-SRA-2019.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/$file/Financial-Institutions-SRA-2019.pdf)

2 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>



The AML/CFT Act	The Anti-Money Laundering and Countering Financing of Terrorism Act 2009
Diaspora	This term refers to Pacific Islanders who have left their homeland to reside overseas. There are large groups of Pacific diaspora in NZ.
Money laundering	Money laundering (ML) is the process by which criminals convert the proceeds of crime to realise and enjoy the financial benefits of their offending. Money remittance services can be used at all stages of the ML process.
Money remittance	This refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value, and the payment of a corresponding sum in cash or other form to a beneficiary. This can involve one or more intermediaries.
Money remitters	Money remitters are also known as money transfer operators (MTOs), money or value transfer services (MVTs) providers, or money service businesses (MSBs).
Pacific Island countries	In this document Pacific Island countries refers to the following 14 countries: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.
Risk	The risk of ML/TF. In line with Financial Action Task Force (FATF) guidance, ML/TF risk is a function of threat, vulnerability and consequence. Threat combined with vulnerability is expressed as likelihood, with the level of risk a function of likelihood and consequence.
Seasonal workers	Labour mobility schemes allow workers from eligible countries to obtain temporary work visas sponsored by employers in NZ. This includes the Recognised Seasonal Employer (RSE) scheme to work in the horticulture and viticulture industries.
Predicate offending	A predicate offence is the underlying offence that generates proceeds of crime for money laundering. Any offence that generates any financial profit may be a predicate offence to money laundering in NZ.
Prescribed transaction reports	Prescribed transactions are transactions conducted through a reporting entity in respect to International Funds Transfers (IFTs - an international wire transfer of NZD\$1,000 or more where at least one of the institutions involved in the transaction is in NZ, and at least one is outside of NZ) and Large Cash Transactions (LCTs - a domestic, physical cash transaction of NZD\$10,000 or more). A prescribed transaction report (PTR) must be reported to the NZ Police FIU within 10 working days.
Terrorism financing	Terrorism financing (TF) is the financing of terrorist acts and of terrorists and terrorist organisations. ML funds are always of illicit origin, whereas in the case of TF, funds can stem from both legal and illicit sources.

# Part 1:

## Introduction

9. The Department of Internal Affairs (DIA) Financial Institutions Sector Risk Assessment (SRA) 2019<sup>3</sup> assesses the **inherent** money laundering and terrorism financing (ML/TF) risk of the money remittance sector as **High**.
10. The Financial Institutions SRA states that both domestic and international evidence and guidance highlight the significant ML/TF risks presented by the money remittance sector. The high-risk products and services of this sector, combined with an ease of access, wide geographic spread, high-risk customers and the ability to move funds overseas means this sector presents High inherent risk of ML/TF.
11. However, DIA recognises that not all money remitters will face the same types or level of inherent ML/TF risk. Factors that impact on the level of risk include the type of remittance service, the ways the service is delivered, the types of customer dealt with, and the region or jurisdictions being remitted to.
12. This risk assessment relates specifically to the NZ-to-Pacific money remittance corridor. This is the first risk assessment produced by DIA in relation to the ML/TF risks of a sub-sector that it supervises. Its purpose is to:
  - meet the FATF Recommendations which require countries to adequately assess ML/TF risks and provide effective AML/CFT regulation and supervision.
  - help DIA as an AML/CFT supervisor understand the ML/TF risks within the NZ-to-Pacific money remittance corridor.
  - assist money remitters operating in the NZ-to-Pacific corridor identify the ML/TF risks they face and to inform their risk assessments.
  - assist money remitters operating in the NZ-to-Pacific corridor differentiate between low and higher risk transactions, customers or scenarios.

## Scope of risk assessment

13. This risk assessment relates to the money remittance corridor from NZ to Pacific Island countries. There are 14 Pacific countries covered by this risk assessment: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.
14. This sub-sector risk assessment is for NZ-to-Pacific money remitters that are supervised by DIA. This includes large multinational providers that service multiple geographical regions that include the Pacific. This also includes small to medium sized money remitters in NZ who only service one or more Pacific Island countries.

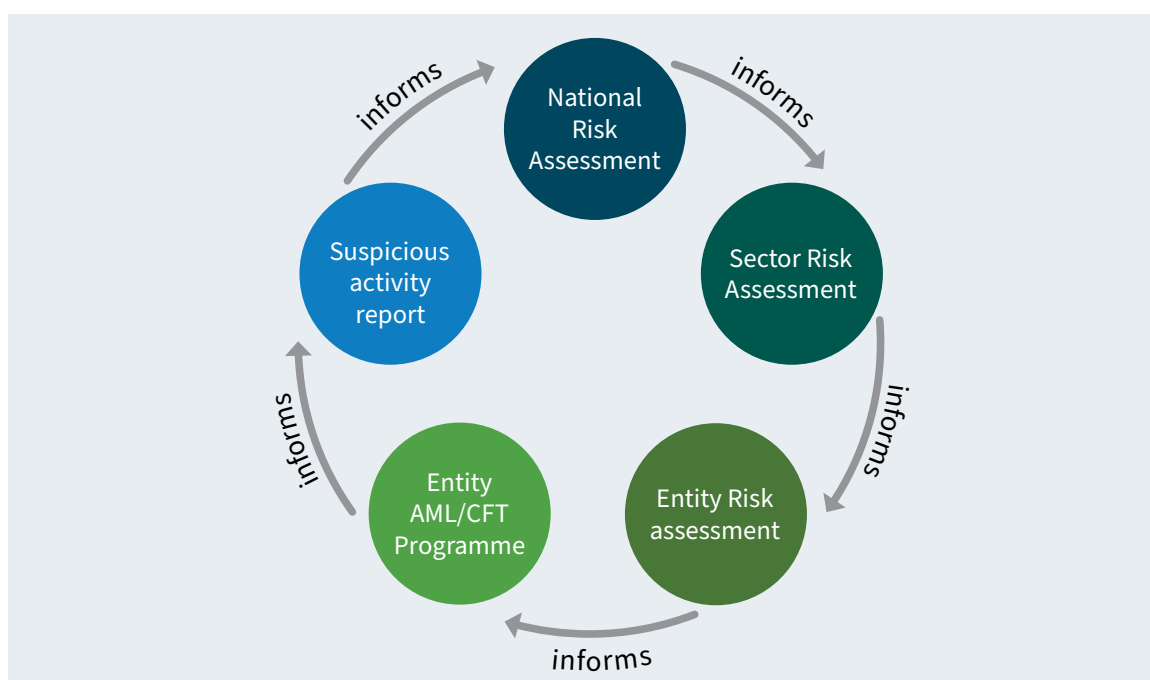
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3 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

15. The risk assessment does not assess remittances sent by banks, remittances involving jurisdictions other than Pacific Island countries, or the carrying of physical cash to or from Pacific Island countries. Nor does the risk assessment assess the criminal threat environment within each individual Pacific Island country.

## Money laundering and terrorism financing risks

16. There are three levels of ML/TF risk assessment undertaken in NZ: national, sector, and individual reporting entity. This risk assessment is placed at a level between the Financial Institutions SRA and the individual reporting entity risk assessment. How the three types of risk assessment inform each other is demonstrated below:



17. **National risk assessment (NRA)**<sup>4</sup> – The NRA provides an overview of the ML/TF risks affecting the whole of NZ. It is based on information from various sources including suspicious activity reports (SARs) and proceeds of crime asset recovery data. Information from law enforcement and other government agencies, both domestic and international, also contributes to the NRA.
18. **Sector risk assessment (SRA)** – The AML/CFT supervisors each undertake a risk assessment for the sectors they supervise. The SRAs draw on a variety of sources including the NRA, AML/CFT supervisory experience, domestic and international guidance, FIU risk assessments and reporting entity risk assessments. The latest SRA for the money remittance sector is the DIA Financial Institutions SRA 2019<sup>5</sup>.

4 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

5 [https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/\\$file/Financial-Institutions-SRA-2019.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/$file/Financial-Institutions-SRA-2019.pdf)

19. **Reporting entity risk assessment** – A reporting entity is required to undertake an assessment of the ML/TF risk it faces in the course of its business. Section 58 of the AML/CFT Act sets out what is required in a risk assessment. The risk assessment must have regard to any applicable guidance material produced by the FIU or AML/CFT supervisors. This includes the NRA and the relevant SRA issued by their AML/CFT supervisor.

## SRA methodology

20. The Financial Institutions SRA assesses the inherent ML/TF risks of the money remittance sector using the same six variables that a money remitter must consider for its own risk assessment (as prescribed in section 58(2)(a)–(f) of the AML/CFT Act):
- Nature, size and complexity of the sector
  - Products and services
  - Methods of delivery of products and services
  - Customer types
  - Country risk
  - Institutions dealt with
21. Inherent risk is the assessed ML/TF risk before any controls or mitigation measures have been put in place. ML/TF risk is a combination of threat, vulnerability and consequence. Residual risk is the assessed ML/TF risk **after** AML/CFT measures have been put in place.
22. This same methodology has been used to assess inherent ML/TF risks of the NZ-to-Pacific money remittance corridor.
23. The Financial Institutions SRA identifies four key **vulnerabilities** and five **high-risk** factors for the money remittance sector:



### Key vulnerabilities

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- Cash and liquidity
- New payment technologies
- Anonymity and complexity
- Lack of AML/CFT awareness



### High-risk factors

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- International payments
- High risk customers and jurisdictions
- Politically exposed persons and high wealth individuals
- Gatekeepers
- Money service businesses



## How money remitters should use this risk assessment

24. This risk assessment should be reviewed in conjunction with the NRA and Financial Institutions SRA. It is intended to assist money remitters operating in the NZ-to-Pacific remittance corridor to further identify and understand their ML/TF risks. Money remitters operating in the NZ-to-Pacific remittance corridor should consider the content of this risk assessment when reviewing or updating their own risk assessment and AML/CFT programme.
25. **Part 2: Context and criminal threat environment** – This part of the risk assessment considers the context and criminal threat environment associated with the NZ-to-Pacific remittance corridor.
26. **Part 3: Inherent risk rating** – This part of the risk assessment considers the NZ-to-Pacific remittance corridor using the same six variables that were utilised in the Financial Institutions SRA. Ratings are adjusted to reflect the context of the NZ-to-Pacific money remittance corridor.<sup>6</sup>
27. **Part 4: Risk key** – This part of the risk assessment summarises the types of transactions, customers and situations in the NZ-to-Pacific remittance corridor that may pose lower or higher ML/TF risk. This should assist money remitters conduct a risk assessment of their business and implement an AML/CFT programme to mitigate their risks.
28. **Part 5: Red flags** – This part of the risk assessment identifies potential red flags in customer behaviour and transaction patterns that should prompt a money remitter in the NZ-to-Pacific corridor to carry out further investigation.
29. **Part 6: Terrorism financing, proliferation financing and sanctions** – This part of the risk assessment relates to terrorism financing, proliferation financing and sanctions risks associated with the NZ-to-Pacific remittance corridor.

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<sup>6</sup> Note that a risk rating is not an indication of instability or criminality of any business type or reporting entity operating within the NZ-to-Pacific money remittance corridor.

## Part 2:

# Context and criminal threat environment

### Context of NZ-to-Pacific remittance corridor

30. Pacific Island countries are some of the most remittance-reliant jurisdictions in the world. World Bank data indicates that remittance flows account for a significant part of the Gross Domestic Product (GDP) of Pacific Island countries. For instance, recent World Bank data shows that remittance as a share of Tonga's GDP is 38%, for Samoa it is 19% and for Fiji it is 7%.<sup>7</sup> Remitters handle some 80% of the number of total remittances to the Pacific and a similar share of the value of remittances of less than AU\$500.<sup>8</sup>
31. Based on consultation with money remitters in both NZ and Australia the average value of remittance sent to the Pacific Islands is estimated to be around NZ\$500 with most transactions below that amount.<sup>9</sup> The main sources of remittance to the Pacific Islands are from the United States, Australia and NZ in roughly equal shares.<sup>10</sup>
32. Remittance provides a source of income for daily living expenses for many households in the Pacific Islands and is an important source of funds for cultural and familial events. Research commissioned by the Ministry of Foreign Affairs and Trade (MFAT) and Australia's Department of Foreign Affairs and Trade (DFAT) to understand how and why people remit to the Pacific Islands highlighted the following:<sup>11</sup>
- Earning money to remit is central to the lives of Pacific diaspora communities and seasonal workers.
  - Trust and ease of access are critical in the choice of money remitter.
  - Use of cash is favoured by senders and receivers.

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7 <https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

8 <https://www.rba.gov.au/publications/bulletin/2018/jun/developments-in-correspondent-banking-in-the-south-pacific.html>

9 Consultation undertaken by RBNZ and RBA 2020.

10 <https://www.rba.gov.au/publications/bulletin/2018/jun/developments-in-correspondent-banking-in-the-south-pacific.html>

11 Taken from unpublished (to date) DFAT/MFAT sponsored research undertaken during 2019.

33. While family support, cultural and familial events are the primary reason for remittance to the Pacific, funds are also remitted for other reasons. This includes trade, commercial investments or members of the Pacific Island diaspora investing in property or land at home. While involving a much smaller number of less frequent transactions, the value of these transactions is often significantly higher than those sent for family support, cultural or familial events.
34. Many money remitters are also involved in settling inbound remittance transactions from the Pacific Islands to NZ. Customers remitting funds inbound to NZ may be importers purchasing goods from NZ exporters. Alternatively, funds remitted inbound may be to support students from the Pacific Islands who are studying in NZ. To ensure sufficient funds are held in the Pacific Islands to be able to make payments out to beneficiaries, money remitters may have to periodically rebalance their available funds in that jurisdiction. This may be undertaken through higher value wire-transfers from NZ or through the physical transportation of cash. Whatever model is used by the money remitter to deliver their services, an appropriate risk assessment and AML/CFT measures are required.

## De-risking

35. Since the AML/CFT Act came into effect, a number of small or medium sized money remitters in the NZ-to-Pacific remittance corridor have experienced difficulties opening, or maintaining, bank accounts to enable them to transact their money remittance services. This is also consistent with the experience in other money remittance corridors and in various overseas jurisdictions<sup>12</sup>. This is commonly known as “de-risking”. The Reserve Bank of New Zealand (RBNZ) has set out its expectations that banks apply a risk-based approach to their AML/CFT obligations, by which risk is managed not avoided.<sup>13</sup>
36. DIA is aware that some money remitters have only been able to continue to provide their remittance services by using personal bank accounts in the names of the owner, or family members, or other associated persons. Alternatively, some money remitters have incorporated “shell” companies and opened bank accounts without declaring to the banks that the account will be used to transact a money remittance service.

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12 [https://www.fatf-gafi.org/documents/riskbasedapproach/documents/risk-based-approach-banking-sector.html?hf=10&b=0&s=desc\(fatf\\_releasedate\);](https://www.fatf-gafi.org/documents/riskbasedapproach/documents/risk-based-approach-banking-sector.html?hf=10&b=0&s=desc(fatf_releasedate);) <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-money-or-value-transfer.html>

13 <https://www.rbnz.govt.nz/news/2015/01/statement-about-banks-closing-accounts-of-money-remitters>; <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/anti-money-laundering/guidance-and-publications/De-risking-and-AML-CFT-risk-appetite.pdf?revision=6b63a82a-e07b-40a8-9524-feb905897fb1&la=en>; <https://www.rbnz.govt.nz/news/2021/04/keeping-the-bank-door-open-for-pacific-peoples>

37. Consistent with overseas jurisdictions, these practices, in which multiple and continually changing bank accounts are used for transacting money remittance services, increase the level of ML/TF risk. As identified in the NRA, de-risking may also force some money remitters underground completely where no AML/CFT measures are implemented and the level of ML/TF risk therefore increases further.<sup>14</sup>

## Criminal threat environment - NZ

38. The NRA identifies three main domestic offence types in NZ (see below). These are drug offending, and to a lesser extent fraud and tax offending.<sup>15</sup>



### Drug Offending

Drug offending generates large amounts of illicit cash and is a cash intensive trade with payments made at various stages including manufacture, transportation and sales. Drug networks potentially generate a higher value of proceeds than other offences investigated by Police and involve a large number of offenders.



### Fraud

Laundrying activities are conducted to hide the proceeds of crime generated by the full spectrum of fraud offending. In the majority of cases, funds are generated in the legitimate financial sector before being laundered using financial and professional service providers.



### Tax Offending

The abuse of the tax system through intentional and dishonest behaviours generates a large amount of illicit funds. These funds, largely retained within the legitimate financial sector, are typically self-laundered or laundered using professional service providers. Money laundering is most likely to occur inherently in the way taxes are evaded rather than requiring a discrete action.

14 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

15 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

39. Any other crime that generates financial profit may also be a predicate offence to ML in NZ. This includes human trafficking, people smuggling, sexual exploitation, dealing in stolen goods, robbery, theft, bribery or corruption. However, when compared to drug, fraud and tax offending, these are not identified as significant ML threats in NZ.<sup>16</sup>
40. In addition to domestic threats, NZ is also exposed to international ML threats. The NRA identifies these to include threats from transnational organised crime groups linked to NZ, or overseas criminals who may seek to move funds through NZ or its legal structures.<sup>17</sup>
41. Prosecutions for human trafficking to NZ from the Pacific Islands over the last decade have been very low, though this is likely an underreporting of the offence. However, the Crimes Act 1961 has been updated to criminalise domestic as well as transnational people trafficking and the wider spectrum of exploitation is better understood, including slavery and forced labour. This has led to a comprehensive, whole-of-government response to people trafficking.<sup>18</sup>

## Criminal threat environment - Pacific Islands

42. No jurisdictions are without risk, including Pacific Island countries. The FIU identifies the following criminal threats in the Pacific: corruption, human trafficking, online child exploitation and increasing use by organised crime as a transshipment point for illicit drug importation to NZ and Australia. However, large scale or sophisticated offending and transnational organised crime are not identified as prevalent.
43. The Asia Pacific Group on Money Laundering (APG) in their 2019 Yearly Typologies Report highlights an increasing gang presence in the Pacific Islands, including through familial connections. This provides an optimal setting for gangs to conduct a range of organised criminal activities, particularly moving illicit substances in and out of the region and into NZ. The FIU has observed money laundering techniques including “cash smuggling, wire transfers, structured cash deposits, and use of South Pacific jurisdictions as tax havens.”<sup>19</sup> Specific to the money remittance sector, the FIU report some cases of ML and associated offending using Pacific Island money remitters, though the amounts involved are small and the frequency low.

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16 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

17 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

18 <https://www.mbie.govt.nz/dmsdocument/13568-combatting-modern-forms-of-slavery-plan-of-action-against-forced-labour-people-trafficking-slavery>

19 <http://www.apgml.org/includes/handlers/get-document.ashx?d=0adca90d-7ab7-4ac3-9d08-fe64b26db9b6>

44. The United Nations Office on Drugs and Crime (UNODC) has not identified significant involvement by serious and organised crime groups in remitting funds through money remitters in the NZ-to-Pacific remittance corridor. This is also consistent with the findings of AUSTRAC in its 2017 risk assessment of the Australia to Pacific Island remittance corridor.<sup>20</sup> AUSTRAC also assessed that the general absence of high-value remittance, and the lack of sophisticated criminal tactics and methods indicate large-scale or serious financial crimes are unlikely to be taking place.
45. The UNODC identified four major threats posed by transnational organised crime groups to the Pacific Islands in 2016:
- drug and precursor trafficking;
  - human trafficking and smuggling of migrants;
  - environmental crimes (fishery crime, other wildlife trafficking, illegal logging and timber trafficking); and
  - small arms trafficking.<sup>21</sup>
46. Open source reporting indicates some activity in the region in relation to illicit drug staging and transshipment points. In addition, deportations of members of organised criminal gangs from NZ and Australia to the Pacific Islands have the potential to contribute to higher levels of criminal threat in the region.<sup>22</sup>
47. Some Pacific Island countries rate poorly on country risk indexes and blacklists (see country risk section in Part 3). Corruption, bribery and tax evasion are criminal threats that need to be considered in relation to the Pacific, noting in particular those countries that provide offshore financial services.<sup>23</sup>

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20 <https://www.austrac.gov.au/sites/default/files/2019-06/remittance-corridors-risk-assessment.pdf>

21 [https://www.unodc.org/documents/southeastasiaandpacific/Publications/2016/2016.09.16\\_TOCTA\\_Pacific\\_web.pdf](https://www.unodc.org/documents/southeastasiaandpacific/Publications/2016/2016.09.16_TOCTA_Pacific_web.pdf)

22 For example: <https://www.theguardian.com/world/2019/jun/24/the-new-drug-highway-pacific-islands-at-centre-of-cocaine-trafficking-boom>; <https://www.theguardian.com/global-development/2019/jun/24/ive-seen-terrible-terrible-violence-cocaine-and-meth-fuel-and-chaos-in-fiji>; <https://www.theguardian.com/world/commentisfree/2019/jun/26/the-pacific-is-in-danger-of-becoming-a-semi-narco-region>; <https://www.stuff.co.nz/national/crime/113845363/nzs-cocaine-and-meth-habit-takes-toll-on-pacific-islands>; <https://www.stuff.co.nz/entertainment/film/110618772/no-return-address-the-former-criminals-deported-back-to-tonga>

23 <https://www.transparency.org.nz/blog/pacific-corruption-barometer>; [https://www.unodc.org/documents/southeastasiaandpacific/pacific/2020/UN-PRAC\\_InfoNote\\_-\\_Economic\\_and\\_Social\\_Impacts\\_of\\_Corruption.pdf](https://www.unodc.org/documents/southeastasiaandpacific/pacific/2020/UN-PRAC_InfoNote_-_Economic_and_Social_Impacts_of_Corruption.pdf)



## Part 3:

# Inherent risk ratings

Overall inherent risk: ■ Medium

Inherent risk: ■ Low

for low-value remittance for family support, familial or cultural events

Both domestic and international evidence highlight the inherent ML/TF risks presented by the money remittance sector as High.<sup>24</sup> Remitters in the NZ-to-Pacific corridor offer a more limited range of remittance services, have less involvement in new payment technologies, have typically lower risk customers, facilitate low value transactions and send funds to predominantly lower risk jurisdictions. This risk profile is supported by NZ supervisory experience, comprehensive Australian data<sup>25</sup> and research undertaken by MFAT and DFAT.<sup>26</sup> However, the criminal threat environment, the ability to make international payments and the use of cash in the corridor mean the sub-sector still faces ML/TF risks, especially when risk variables are combined. As such the NZ-to-Pacific money remittance corridor is assessed to have an overall Medium level of inherent ML/TF.

However, low-value remittance transactions (under \$1000) from the Pacific diaspora or seasonal workers sent to the Pacific Islands for family support, familial or cultural events are assessed to be of Low inherent ML/TF risk.



## Nature, size and complexity of sector

48. Money remitters operating in NZ are required to be registered on the Financial Service Providers Register. There is currently no professional body with oversight of the money remittance sector.
49. The Financial Institutions SRA states there are 99 money remitters nationally. The sector is primarily based in the cities, with most in the Auckland area. Of these remitters DIA identifies 21 to be sending money to or receiving it from the Pacific, primarily based in South Auckland. This does not include agents of remitters, for example dairies and other small retail outlets, of which there are many more. Notably, there are a number of agents of Pacific Island remitters in regions where there are diaspora and seasonal workers in horticulture and viticulture industries.

24 <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-money-value-transfer-services.pdf>

25 <https://www.austrac.gov.au/sites/default/files/2019-06/remittance-corridors-risk-assessment.pdf>

26 Taken from unpublished (to date) DFAT/MFAT sponsored research undertaken during 2019.

50. Some money remitters are large multi-national providers, for whom the Pacific Islands are one of several regions serviced. These remitters have global networks of agents and established payment systems through which they transact their remittance service. Other multi-national providers have solely online business models and do not accept cash.
51. However, the majority of remitters in the NZ-to-Pacific corridor are specialist remitters that only service one Pacific Island country. These remitters typically utilise informal or 'hawala' systems of money transfer.<sup>27</sup> In a typical money transfer, the money remitter will use funds received from customers sending funds from NZ to settle inbound remittance payments of an unrelated customer in the Islands. In the Islands, the process works in reverse. Only the money remitter has visibility of the parties to the transaction and control over the payment process. Periodically the money remitter will need to transfer additional funds in one direction or the other to ensure that it retains a positive balance in both jurisdictions to be able to meet settlement requirements.<sup>28</sup>
52. The impact of de-risking means that some Pacific Island money remitters have to use multiple or continually changing bank accounts to deliver their remittance services. This adds complexity and corresponding risk to the overall structure and transparency of the sub-sector.

### Assessed risk: Nature, size and complexity of sector

**Overall money remittance sector: ■ High**

**Adjusted for NZ-to-Pacific corridor: ■ Medium**

A smaller number of single country focused money remitters in the NZ-to-Pacific remittance corridor tend to have simpler business arrangements. Agents tend to have ongoing seasonal business relationships with Pacific Island diaspora and seasonal workers sending funds home for family support, familial or cultural events. Overall, this results in an inherent Medium level of risk when compared to the wider remittance sector.

<sup>27</sup> [https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/\\$file/Financial-Institutions-SRA-2019.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/$file/Financial-Institutions-SRA-2019.pdf)

<sup>28</sup> <https://treasury.govt.nz/sites/default/files/2013-06/remittance-review.pdf>



## Products and services

53. Several key vulnerabilities and high-risk factors as identified in the Financial Institutions SRA are present in the NZ-to-Pacific remittance corridor. This includes international payments, the use of cash and new payment technologies. However, the nature of these high-risk factors must be considered in the context of the NZ-to-Pacific remittance corridor. While international payments are prevalent, the amounts are typically lower value and lower risk. While the use of cash is common for customers in the NZ-to-Pacific remittance corridor, research indicates a heavy reliance on cash is necessary due to low penetration of new payment technologies systems amongst the Pacific Island countries.<sup>29</sup>

### Assessed risk: Products and services

Overall money remittance sector: ■ High

Adjusted for NZ-to-Pacific corridor: ■ Medium

The NZ-to-Pacific remittance corridor facilitates international payments but predominantly of low value and lower risk for family support, familial or cultural events. The use of new payment technologies is not prevalent compared to other remittance corridors. However, the corridor is still exposed to threats, vulnerabilities and risk factors, including the use of cash. Overall, this results in an inherent Medium level of risk compared to the wider remittance sector.

<sup>29</sup> <https://www.unescap.org/sites/default/files/publications/WP-19-08%20Fintech%20and%20Remittance%20Paper.pdf>



## Methods of delivery

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54. The remittance product offered by money remitters in NZ-to-Pacific corridor can be delivered in various ways:<sup>30</sup>
- a. Cash remittance: This allow customers to send money by paying cash to a remitter or their agent in NZ. Customer due diligence (CDD) procedures will usually be conducted in person at the agent or money remitter's premises. From there, the remitter will use an agent or related company in the destination Pacific Island country to pay out the beneficiary. This is commonly a pay-out in cash, or in some circumstances by bank transfer into the beneficiary's bank account or payment for goods or services. In some countries, funds may also able be credited into mobile phone accounts held by the beneficiary.
  - b. Bank account transfer: This allows customers to send money by domestic online bank transfer into an account in NZ held by the money remitter. Again, CDD procedures will usually be conducted in person at the agent or money remitter's premises in NZ. From there, the process works the same as above with payments to the beneficiary possible by cash, bank transfer, payment for goods or services, or to mobile phone account.
  - c. Online remittance platforms or mobile phone app: Some money remitters have online methods of delivery, with funds received in NZ by credit card, debit card or online bank transfer. There is no face-to-face contact with the customer and all CDD is undertaken remotely, with identity verified electronically. As with other methods, payments to the beneficiary are variously possible by cash, bank transfer, paying for goods or services or to a mobile phone account. Some remitters enable customers to load and transfer money into different currency wallets and accounts that can be accessed or paid out in the destination country, although this is not prevalent in the Pacific Islands.
55. While non-face-to-face methods of delivery are used in the NZ-to-Pacific remittance corridor, it is not as prevalent as face-to-face means. Where agents are utilised, it is often within established relationships servicing Pacific diaspora or seasonal workers.
56. Where informal or hawala methods of money transfer are utilised, this tends to be by money remitters transferring funds to or from only one country. While such systems are a recognised area of ML/TF risk, in the context of NZ-to-Pacific remittance, the systems are less complex than in other jurisdictions and able to be AML/CFT compliant.

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30 <https://treasury.govt.nz/sites/default/files/2013-06/remittance-review.pdf>

## Assessed risk: Methods of delivery of products and services

Overall money remittance sector: ■ Medium-high

Adjusted for NZ-to-Pacific corridor: ■ Medium

The majority of customers in NZ-to-Pacific corridor undertake money remittance through lower risk face-to-face means. With new payment technologies less prevalent than in other remittance corridors and informal systems of money transfer less complex, the overall inherent level of risk is assessed as Medium when compared to the wider remittance sector.



## Customer types

57. A large proportion of customers in the NZ-to-Pacific remittance corridor are individuals from diaspora communities or seasonal workers sending low value money transfers for family support in their home countries. Other types of customer, such as those remitting for investment purposes, trade and import/export are only a small proportion of the customer base. This results in far fewer customers that are legal persons or legal arrangements, with layers of ownership.

## Assessed risk: Customer types

Overall money remittance sector: ■ Medium-high

Adjusted for NZ-to-Pacific corridor: ■ Low

Most customers are lower-risk NZ-based individuals; representing both diaspora and seasonal worker populations. Overall, this results in a lower level of inherent risk compared to the wider remittance sector. Legal arrangements and persons acting on behalf of others would warrant closer attention.



## Country risk

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58. There are various factors that impact the level of ML/TF risk associated with a country. This includes sanctions or embargoes, ineffective AML/CFT measures, economic instability, high levels of organised crime, a prevalence of bribery, corruption or conflict, or the production and/or transnational shipment of illicit drugs. The presence of offshore financial services is also a risk.
59. Generally Pacific Island countries are low risk jurisdictions and there are no Pacific Island countries currently on the Financial Action Task Force (FATF) list of high risk and other monitored jurisdictions (known as the “grey list”). However, there are Pacific countries who have previously been on, or are currently on, the EU list of countries which have strategic deficiencies in their AML/CFT regimes<sup>31</sup> and EU list of non-cooperative jurisdictions for tax purposes<sup>32</sup>.
60. It is important that Pacific Island country risk and the wider criminal threat environment are assessed in the context of the financial service being provided. As outlined in Part 2, the UNODC identified four main threats to the Pacific Islands from transnational organised crime groups. These are drug and precursor trafficking, human trafficking and smuggling of migrants, environmental crimes, and small arms trafficking. However, the UNODC has not identified significant involvement by serious and organised crime groups in remitting funds through money remitters in the NZ-to-Pacific remittance corridor.
61. This is also consistent with the findings of AUSTRAC in its 2017 risk assessment of the Australia to Pacific Island remittance corridor.<sup>33</sup> AUSTRAC also did not determine there to be any significant risk differences between the different corridors to the 14 Pacific Island countries<sup>34</sup>. As noted, open source reporting does indicate cases of the region being used for the staging and transshipment of illicit drugs, and the presence of deported members of organised criminal gangs from NZ and Australia.

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31 [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/anti-money-laundering-and-counter-terrorist-financing/eu-policy-high-risk-third-countries\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/anti-money-laundering-and-counter-terrorist-financing/eu-policy-high-risk-third-countries_en)

32 <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/>

33 <https://www.austrac.gov.au/sites/default/files/2019-06/remittance-corridors-risk-assessment.pdf>

34 <https://www.austrac.gov.au/sites/default/files/2019-06/remittance-corridors-risk-assessment.pdf>



## Assessed risk: Country risk

Overall money remittance sector: ■ Medium-high

Adjusted for NZ-to-Pacific corridor: ■ Medium

While various threats from organised crime groups and individual cases of misuse of remitters have been identified in relation to Pacific Island countries, no significant trends or patterns of misuse of the remittance sector have been detected. Overall, the country risk associated with the Pacific Islands is assessed as Medium when compared to other jurisdictions around the world and the wider remittance sector, with some countries presenting less risk than others.



## Institutions dealt with

62. Most NZ-to-Pacific money remitters use bank accounts to settle their money remittance activities. Some will also have business relationships with other money remitters and sometimes currency exchanges. Otherwise, they will have limited exposure to other types of financial institution or designated non-financial business or profession (DNFBP).

## Assessed risk: Institutions dealt with

Overall money remittance sector: ■ Medium-high

Adjusted for NZ-to-Pacific corridor: ■ Low

Apart from banks, money remitters in the NZ-to-Pacific corridor will generally have limited exposure to dealing with other financial institutions. Overall, the risk associated with institutions dealt with is assessed as Low when compared to the wider remittance sector.

## Part 4:

# Risk factors

63. The table below sets out factors for a NZ-to-Pacific remitter to consider when undertaking a risk assessment under section 58(2)(a)-(g) of the AML/CFT Act, and to understand the ML/TF vulnerabilities present in their remittance corridor.
64. The vulnerabilities are grouped into factors that may either increase or decrease ML/TF risk. This will assist in determining the inherent level of ML/TF risk that businesses face (compared to the wider remittance sector).
65. The table does not cover everything that may increase or decrease ML/TF risk. It reflects areas of higher or lower risk in the remittance sector in combination with analysis of the key vulnerabilities and high-risk factors identified in the Financial Institutions SRA. It is important to understand that the factors do not operate in isolation but in combination. Where two or more high-risk factors are present, the level of ML/TF risk compounds.
66. Transactions and situations listed in the table may not necessarily signal ML/TF activity if they are consistent with a customer's legitimate business.



### Nature, size and complexity

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#### Factors decreasing risk

- Simple and transparent systems
- Overall low value/low volume of transactions and small customer base
- Settlement through traditional banking channels and formal payment system
- Low staff turnover



#### Factors increasing risk

- Complex systems and settlement channels, including multiple bank accounts in the names of third parties
- Large transactions, high volume of transactions and large customer base
- High staff turnover
- Balancing of accounts in different countries through alternative channels such as cash couriers



## Product and service provided

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### Factors decreasing risk

- Funds received electronically in NZ from the customer's NZ bank account
- Settlement payment in the Pacific Island country is paid into the beneficiary's bank account



### Factors increasing risk

- Cash to cash (i.e. funds received in cash in NZ and paid out to the beneficiary in cash in the Pacific Island country)
- Online remittance, with funds transferred into digital wallets, through alternative banking platforms or to mobile phone account



## Methods by which service is delivered to customers

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### Factors decreasing risk

- Customers met in person and identity verified using original identity documents
- Regular face-to-face contact with customer, with ongoing checks to ensure they look like the photo in the identity document
- Settlement payment in the Pacific Island country is paid into the beneficiary's bank account



### Factors increasing risk

- Customers not physically present for identification purposes and/or no direct interaction with customer
- Agency channel (for example dairies and small businesses) to receive funds in NZ
- All aspects of the transaction carried out remotely/online
- Settling of inbound remittance transactions to NZ by paying cash into the beneficiary's bank account
- Settling of accounts through trade rather than funds transfer



## Types of customer

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### Factors decreasing risk

- Stable well-known customer base who transact regularly
- Pacific Island diaspora (NZ work visa, resident or citizens) sending funds for family support, a cultural or familial event
- Seasonal workers holding RSE scheme visas working in horticulture or viticulture



### Factors increasing risk

- Persons without right to work in NZ
- Politically exposed persons and high net worth individuals
- Remittance by persons without family links to the country being remitted to
- Importers/exporters
- Charities and other non-profit organisations
- Customers that are legal persons or legal arrangements (rather than individuals)



## Pacific Island countries dealt with

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### Factors decreasing risk

- Country remitted to has sufficient AML/CFT measures in place
- Country remitted to has low levels of organised crime, drug trafficking or corruption



### Factors increasing risk

- Country remitted to has insufficient AML/CFT measures in place
- Country remitted to has additional remittance corridors beyond the Pacific (other than NZ, Australia or United States)
- Money is sent to or received from Pacific Island country known to have high levels of criminal activity, tax evasion, drug trafficking and/or corruption



## Institutions dealt with

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### Factors decreasing risk

- Registered banks (that are regulated for AML/CFT purposes)



### Factors increasing risk

- Other money remitters (as part of informal/hawala relationships) and money exchanges
- Fintech companies (digital wallets, electronic payments or alternative banking platforms)
- Virtual asset service providers

## Part 5:

# Red flags

67. Red flags for potential ML/TF activity are listed below. These red flags are divided into those remitters may come across when remitting funds for a new customer, and those that will occur through ongoing account monitoring or subsequent transactions undertaken by an existing customer. The lists are not exhaustive and depend on the context of the activity, transaction or behaviour. Red flags should prompt a money remitter in the NZ-to-Pacific corridor to carry out further investigation, conduct enhanced CDD and potentially submit a suspicious activity report.

### Remitting funds for a new customer



#### Customer

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- Identity documents that appear false, or the photo does not match the person using the document
- Customer unwilling to provide personal information, identity documents or the reason for remitting funds
- Customer phones or sends email and is reluctant to come in to have identity verified face-to-face
- Customer is not from the same country or area of the country to which funds are being sent
- Customer reads from a note to explain where the funds came from or the explanation appears rehearsed, or cannot explain where funds come from
- Customer is accompanied by another person who keeps a low profile or stays outside
- Customer cannot explain who the beneficiary is and why funds are being sent, or the reasons appear false
- Customer appears in a hurry
- Customer provides unusual instructions for payment to beneficiary
- Customer is known to have criminal links
- Customer claims to be transferring funds for business purposes but is unable to provide supporting documents to demonstrate this
- Customer is not interested in the exchange rate or cost of transferring funds
- Customer asks for AML/CFT procedures not to be applied



## Transactions

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- The transaction is excessive or not what is expected from the type of the customer (e.g. it is not typical for the Pacific Island diaspora or seasonal workers sending funds home on a regular basis)
- The transaction has no visible or obvious economic or reasonable explanation
- An unusually large transaction
- A new customer undertakes multiple smaller transactions over a few days.
- The transfer made by the customer is complex or unusual for no clear reason
- Cash is in used notes, is dirty and/or is in small denominations
- Using cash in circumstances where payments would usually be by bank transfer
- Multiple transactions on the same or consecutive days from different customers that are all sending funds to the same beneficiary

## Account monitoring (including subsequent transactions undertaken by a customer)



### Customer

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- A sudden change in the customer's lifestyle, wealth or the way they interact with the remitter or agent
- Customer provides different or inconsistent information regarding the reasons for remitting funds and the source of the funds
- Customer starts remitting funds to a different country or area of a country
- Customer undertakes transactions through multiple different agents within a short period of time
- Customer starts sending funds to multiple beneficiaries



### Transactions

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- A transaction is unusually large or not typical of the type normally made by the customer
- A change from remittance by bank transfer to remittance by cash, or vice versa
- A sudden increase in the frequency/value of transactions by a customer without reasonable explanation
- The same beneficiary receives multiple remittance transactions from different customers on an ongoing basis



## Part 6:

# Terrorism financing, proliferation financing and sanctions

### Terrorism financing

68. Given the important and evolving nature of TF risk, this topic is covered in a dedicated section of the Financial Institutions SRA and the NRA. It is important that NZ-to-Pacific money remitters are aware of their TF risks.
69. The NRA reports that the threat presented by TF in NZ is low.<sup>35</sup> Despite this assessment, it is prudent for all DIA reporting entities to consider the vulnerabilities and risk factors associated with TF and the potential red flags that may indicate TF activity. None of the Pacific Island countries in this risk assessment have been linked to TF and none appear in the Global Terrorism Index.<sup>36</sup> While no nation is immune from terrorism there are no indicators or warnings that TF is occurring or will occur in the Pacific Islands. As such it is assessed that the NZ-to-Pacific remittance corridor presents a Low inherent risk of TF and related activity. AUSTRAC assessed the threat of TF through remittance providers to the Pacific as very low.<sup>37</sup>
70. The evolving nature of the TF environment means that NZ-to-Pacific remitters should make sure their CFT measures are both adequate and effective. This should be reflected in relevant AML/CFT procedures and evidenced by regular testing and validation. Please refer to the Financial Institution SRA for more information.
71. TF covers a wide range of terrorism-related activity. It is not necessary for NZ-to-Pacific remitters to identify the purpose of TF. Any potential TF-related information must be reported to the FIU as soon as possible. Money remitters reporting potential TF activity must ensure it is accurate, timely and treated with urgency and sensitivity.

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35 <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf>

36 <https://www.visionofhumanity.org/maps/global-terrorism-index/#/>

37 <https://www.austrac.gov.au/sites/default/files/2019-06/remittance-corridors-risk-assessment.pdf>

## Financing of the proliferation of weapons of mass destruction

72. The FATF has revised its AML/CFT Recommendations to cover not only AML/CFT but also the proliferation of weapons of mass destruction and its financing. There is currently no evidence to suggest that NZ-to-Pacific money remitters are vulnerable to financing proliferation. Although the likelihood of proliferation financing is very low, the potential consequences, as with TF, could be severe. Please refer to the Financial Institutions SRA and FATF guidance<sup>38</sup> for more information.

## Sanctions

73. While not explicitly covered by NZ's AML/CFT legislation, NZ-to-Pacific money remitters should also be aware of sanctions and the role they play in the global environment. Sanctions can range from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. Sanctions can be issued both by intergovernmental bodies such as the United Nations, as well as organisations representing individual countries.

74. In the New Zealand context, the United Nations Act 1946 requires New Zealand to implement sanctions imposed by the UN – this is administered by MFAT. Remitters are not required by New Zealand law to implement sanctions imposed by other individual countries, however should consider the potential ramifications should they choose not to respond to sanctions issued by countries in which they have business.

75. Currently there are no MFAT listed sanctions specifically relating to countries in the NZ-to-Pacific remittance corridor. However, NZ-Pacific money remitters should be aware of risks relating to individuals and organisations named in UN sanctions as these may not be linked to a specific country.

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38 <https://www.un.org/securitycouncil/sanctions/information>



## **Te Tari Taiwhenua Internal Affairs**



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