



## National Anti-Money Laundering Council

Established under the Financial Transactions Reporting Act

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# Money Laundering and Terrorist Financing Risk in Fiji's Banking Sector

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## 1. INTRODUCTION

A national assessment of money laundering and terrorist financing risks was conducted in 2015. The National Risk Assessment (NRA) Report was endorsed by the National Anti-Money Laundering Council in June 2015 and was subsequently published in August 2015.

In 2019-2020, a review of the threats that Fiji faces to money laundering was undertaken. This was to update the money laundering threat component of the NRA which was conducted in 2015.

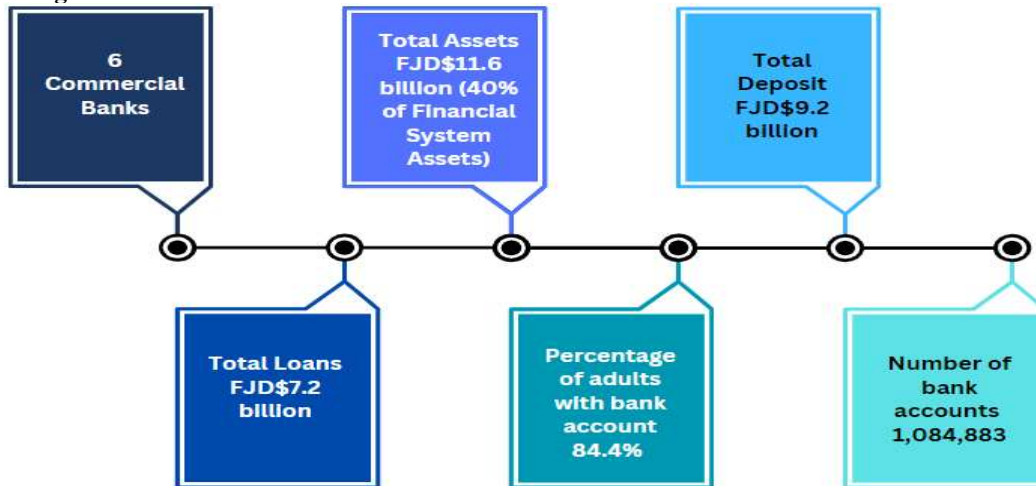
In 2021-2022, the Financial Intelligence Unit (FIU) conducted a sectoral assessment of the money laundering (ML) and terrorist financing (TF) risk in the banking sector in Fiji. This is part of the continuing review of the NRA of 2015.

## 2. FIJI'S BANKING SECTOR

There are six commercial banks in Fiji, of which five are branches of international banks and one is locally owned.

Banks are the biggest sector of Fiji's financial system accounting for over 40% of Fiji's financial system assets. The banks' combined total assets was FJ\$11.6 billion as at 30 June 2021. The banks offer a total of 62 branches and 134 agencies and agent banking.

### Fiji's Banking Sector as at 30 June 2021



### Commercial Banks' Branches/Agencies (Number) as at 30 June 2021



Source: Reserve Bank of Fiji Annual Report (Aug 2020 – July 2021)

The banks service a wide range of clients from individual customers to corporate customers. They offer a wide range of banking services with a major focus on cash deposits and withdrawals. The banks have a global presence and their activities include trade finance, cash management services and correspondent banking. The majority of banks are foreign-owned and therefore are able to capitalize on their international branch network to provide services and access markets. High cash transactions and high volume of international wire transactions are evident in the banks.

The commercial banks are licensed and regulated by the Reserve Bank of Fiji (RBF) under the Banking Act 1995. The banks are also required to comply with the requirements under the Financial Transactions Reporting (FTR) Act and Regulations on anti-money laundering (AML) and combating the financing of terrorism (CFT) measures. As part of these AML/CFT requirements, banks report various financial transactions to the FIU.

### Reports submitted by banks to the FIU between 2019 and 2021



Source: Fiji FIU Annual Report 2019 - 2021

The banks are supervised by the RBF for prudential purposes and for compliance with AML/CFT requirements. The FIU also provides some supervision for compliance with AML/CFT requirements on reporting of financial transactions. The banks are provided with adequate AML/CFT guidance materials by the RBF and the FIU. The RBF has detailed procedures for reviewing bank's compliance with Fiji's AML/CFT requirements. The banks are required to have formal written AML/CFT programs and have provided these to the RBF. The FIU has explicit powers under the FTR Act to sanction banks for any non-compliance.

### 3. METHODOLOGY

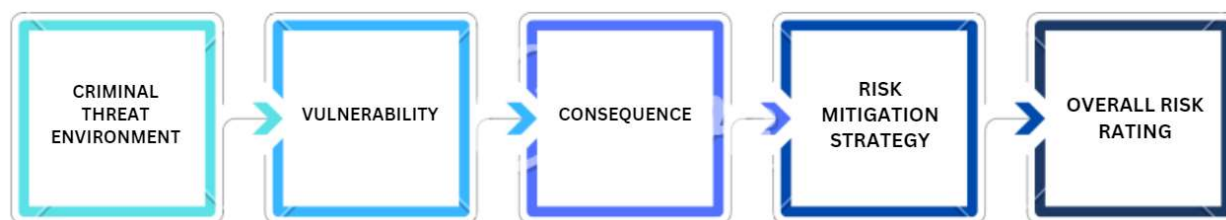
This is a report on the assessment of risk of ML and TF in the banking sector in Fiji. The review analysed data from 2019-2021.

The methodology for this risk assessment is based on the Financial Action Task Force Guidance on National Money Laundering and Terrorist Financing Risk Assessment (February 2013).

Risk is a function of **criminal threat, vulnerability and consequences**. In order to gain an understanding of the ML and TF risk of the banking sector in Fiji, this assessment seeks to assess and understand these three factors of **criminal threats, vulnerability and consequences**.

- a) **Criminal threat environment** refers to the criminal threats facing the banking sector and involves assessing the nature and extent of ML/TF and predicate criminal activities taking place in the banking sector.
- b) **Vulnerability** refers to how the sector is susceptible to criminal activities or the factors and features (such as products and services) that makes banks attractive for ML/TF activities. For the purpose of this assessment, the focus is on inherent ML/TF vulnerability only.
- c) **Consequence** refers to the impact or harm that ML/TF activity may cause to the banks individually and as a sector.

The report concludes with measures in place in Fiji's banking sector to mitigate ML/TF risk. The overall ML or TF risk of banks in Fiji was determined after assessing these key factors.



The ML/TF risk assessment was conducted by the FIU. Information for this risk assessment was sourced from:

- Commercial banks<sup>1</sup> in Fiji, via interviews and internal ML/TF risk assessment reports;
- National Risk Assessment Review on Money Laundering Threats (2020);
- Quantitative and qualitative information obtained from analysis of FIU reports (which includes Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs));
- FIU intelligence reports to law enforcement agencies; court cases on convictions;
- Intelligence from other partner law enforcement agencies;
- RBF publications;
- Recent regional and international risk assessment reports (AUSTRAC, IMF, UNODC, AFI, etc); and
- Open source information which includes public information from relevant websites.

The following commercial banks contributed to the review:

- i. ANZ Fiji
- ii. Bank of Baroda Fiji
- iii. BRED Bank Fiji
- iv. BSP Financial Group Limited
- v. HFC Bank Fiji
- vi. Westpac Fiji

<sup>1</sup> Commercial banks used interchangeably with banks.

## 4. OVERALL RISK RATING

The banking sector plays a critical role in Fiji's financial system accounting for over 40% of Fiji's financial system assets. The banks service a wide range of clients and offer a wide range of banking services with a major focus on cash deposits and withdrawals. These banks have a global presence with majority of banks being foreign owned.

This ML/TF risk rating is based on the assessment of criminal threats that banks in Fiji face, the inherent ML/TF vulnerabilities within banks and potential consequences of ML/TF activities on banks' reputation and operations. The overall risk rating is also based on the assessment of the mitigation strategies that banks have implemented to address ML and TF risk within their operations.

***This assessment concluded that the overall terrorist financing risk associated with the banks in Fiji is Low.***

***Furthermore, the assessment concluded that the overall money laundering risk associated with the banks in Fiji is Medium to High.***

### 4.1 CRIMINAL THREAT ENVIRONMENT

Banks generally face threats from criminals, terrorist groups and their facilitators who seek to use banking services and products to launder their funds or facilitate their transactions.

The ***TF threat faced by banks in Fiji is assessed as low***. There has been no substantive case or other indicators of TF activities or transactions taking place through Fiji's banks.

***However, the threats that banks face from ML and predicate crimes is assessed as high***. This assessment is based on the reports of suspicious transactions received from the banks and intelligence from law enforcement agencies and the FIU.

Majority of the reports of suspicious transaction received from banks (after the FIU's analysis) were disseminated in intelligence reports to FRCS for possible tax evasion or related crimes and to the Fiji Police Force for possible offences under the Crimes Act, Proceeds of Crime Act and other laws.

Intelligence from key law enforcement agencies including the FIU strongly suggest that substantial proceeds linked to financial crimes such as tax evasion, fraud, cyber crime and drug related crimes are being channeled through bank accounts of individuals and entities involved and their associates.

Type of Threats	Threat Assessment
Money Laundering Threat	High
Terrorist Financing Threat	Low
Predicate Offence or Crime Threat	High

### 4.2 VULNERABILITIES

Banks are vulnerable to criminal activities including ML/TF activities due to the products and services they offer, the customers they engage with, the channels of delivering their products or services and the countries associated with their customers or with which they transact.

Banks in Fiji cater for a wide range of customers ranging from individuals, legal entities, trusts, non-profit organisations, government agencies and public enterprises. Furthermore, banks in Fiji cater for a

substantially large customer base in terms of number of customers and value of transactions or deposits. The wide range and substantial size of the banks customer base makes banks vulnerable to ML/TF activities and transactions.

Banks in Fiji offer a wide range of products and services vulnerable to ML/TF. Banks conduct large volumes of cash transactions (deposits and withdrawals). Basic *transaction accounts* allow customers to easily conduct cash deposit and withdrawal transactions at the branches and mostly using the wide network of ATMs throughout Fiji.

All the banks in Fiji provide their products and services through similar delivery channels which include ATMs; point of sale (EFTPOS); internet or online banking; mobile phone banking; branch banking; and agency banking.

These delivery channels offer a degree of speed and anonymity which are preferred by criminals to conduct their transactions.

All banks frequently transact with Fiji's major trading partner countries including countries with global financial centers. Five banks are branches of international banks which provides them with a wider global reach.

*The vulnerability that banks in Fiji face from their customers is assessed as medium. The vulnerability that banks face from the products and services they offer, channels of delivery of their products and services and countries they engage with is assessed as high.*

Factors Contributing to Banks' Vulnerability	ML/TF Vulnerability Assessment
Customer	Medium
Products and services	High
Channels or methods of delivery	High
Countries or geographic locations	High

### 4.3 CONSEQUENCES

Consequence refers to the impact or harm that ML/TF activity may cause to the banks individually and as a sector. *ML/TF and predicate criminal activity in the banking sector is assessed as having major consequences on banks in Fiji.*

Financial crime and ML/TF activities can impact or harm a bank's *reputation*. It can also cause *financial loss* and may impact adversely on the *operations* of the bank.

These consequences of ML/TF and crime may be short or long term in nature and may impact the individual bank and the banking sector in Fiji as a whole. ML/TF or criminal activities in any of Fiji's banks can have major consequences on the reputation of Fiji's banking sector as a whole. This can harm the confidence and trust in the banking sector by customers, investors, donors and international financial institutions and organisations.

Factors Contributing to Consequences	Consequences Assessment
Level of ML/TF and criminal activities in the banking sector	Major

### 4.4 RISK MITIGATION STRATEGIES

The banks in Fiji have adopted comprehensive and strong AML/CFT systems and controls to mitigate the risk of ML, TF and predicate crime. These controls include policies and procedures on customer due diligence, ongoing monitoring, and reporting of transactions to the FIU.

The banks also play strong emphasis on regular training of staff and regular independent reviews of their AML/CFT systems and controls. Five of the six banks are required to comply with their Head Office Group AML/CFT policies and are subject to Head Office monitoring for compliance with Group AML/CFT policies. Banks in Fiji have continuously strengthen their risk and compliance staffing resources and capabilities to mitigate ML/TF risks.

A condition of banks' license to operate in Fiji is that they must comply with FTR Act and Regulations. The RBF regularly supervises all banks in Fiji for compliance with AML/CFT requirements. As part of the RBF's supervision framework, the banks continuously works to strengthens its AML/CFT systems to address any gaps identified by the RBF in its supervision.

The FIU also plays an enforcement role on all financial institutions including the banking sector. The RBF has also issued supervision policies for banks to strengthen their internal control frameworks including that on AML/CFT.

## 5. GLOSSARY

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AML	Anti-Money Laundering
CFT	Combating the Financing of Terrorism
CTR	Cash Transaction Report
EFTR	Electronic Funds Transfer Report
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FTR	Financial Transactions Reporting
ML	Money Laundering
NRA	National Risk Assessment
RBF	Reserve Bank of Fiji
STR	Suspicious Transaction Report
TF	Terrorist Financing



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## SNAPSHOT OF FACTORS CONTRIBUTING TO MONEY LAUNDERING AND TERRORIST FINANCING RISK IN FIJI'S BANKING SECTOR

### Overall Risk

The terrorist financing risk associated with the banks in Fiji is Low. The overall money laundering risk associated with the banks in Fiji is Medium to High.

This ML/TF risk rating is based on the assessment of *criminal threats* that banks in Fiji face, the inherent ML/TF *vulnerabilities* within banks and potential *consequences* of ML/TF activities on banks' reputation and operations. The overall risk rating is also based on the assessment of the mitigation strategies that banks have implemented to address ML and TF risk within their operations.

### Criminal Threat Environment

The threat of money laundering activities/transactions and predicate crimes (such as tax crimes; tax evasion, fraud and illicit drug related crimes) to banks is *high* meaning that these are highly likely to occur in banks. The threat of terrorism financing activities/transactions within banks in Fiji is assessed as *low* or unlikely to occur.

Type of Threats	Threat Assessment
Money Laundering Threat	High
Terrorist Financing Threat	Low
Predicate Offence or Crime Threat	High

### Vulnerabilities Exposing Banks to ML/TF

Banks receive some level of exposure to ML/TF and are likely to be exploited for ML/TF activities due to the wide range of customers they engage with.

Banks are highly exposed to or highly likely to be exploited for ML/TF activities/transactions due to the:

- products and services that the banks offer;
- channels of delivery of their products and services; and
- countries or geographic locations which banks engage with.

Factors Contributing to Banks' Vulnerability	ML/TF Vulnerability Assessment
Customer	Medium
Products and services	High
Channels or methods of delivery	High
Countries or geographic locations	High

### Consequences

ML/TF activities or criminal activities in any of Fiji's banks can have major consequences or significant impact on the affected bank or Fiji's banking sector as a whole. There can be major consequences in terms of harm to banks' reputation, financial loss and operational impact on the banks.

Factors Contributing to Consequences	Consequences Assessment
Level of ML/TF and criminal activities in the banking sector	Major