

Michele Bullock: Remarks - Pacific Banking Forum

Remarks by Ms Michele Bullock, Governor of the Reserve Bank of Australia, at the Pacific Banking Forum 2024 Dinner, Brisbane, 8 July 2024.

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Good evening, everyone. It's an absolute pleasure to be here. I actually want to just acknowledge that it is NAIDOC Week, National NAIDOC Week, this week. NAIDOC Week, for our visitors, is about recognising the history, culture and achievements of Aboriginal and Torres Strait Islander Peoples, and the theme this year is: 'Keep the Fire Burning! Blak, Loud and Proud.' In that vein, I too would like to begin my remarks by acknowledging the Jagera people and the Turrbal people. They are the traditional custodians of the land on which we gather today. They've cared for it for millennia and I want to pay my respects to their elders past and present, and I extend that respect to Aboriginal and Torres Strait Islander Peoples who are here today. I also want to say thanks to the Wagga Torres Strait Islander Dance performers. That was absolutely wonderful. I really enjoyed that, so well done to them.

Finally, I'd like to echo Assistant Treasurer Jones' comments and warm welcome, and I'd especially like to welcome my fellow central bank governors, deputy governors and assistant governors who are here tonight.

At the Bank, we have a longstanding relationship with our Pacific partners. Many Pacific Islanders, in fact, call Australia home as you know – a lot of them are in the rugby team – and we have a deep interest in promoting their welfare and the interests of our Pacific neighbours more generally. So over the past four decades, we at the Bank have met annually with central banks from the Pacific Island countries, Timor-Leste and New Zealand, and, in those meetings, we discuss the challenges that the region is facing and work together to try to implement solutions. The decline in correspondent banking relationships is one of the biggest challenges currently facing the Pacific region, and the situation, I think, as you've heard today in your meetings, has deteriorated in recent years. It's progressed from a looming threat to an acute issue that some Pacific Island countries have actively faced in recent years. So it's not out there on the horizon; it's here. From the data that we've seen, the decline in the relationships is widespread and the trend appears set to continue, unless we collectively take action to address it.

Now, we know that the situation in the challenge is complex. The decline isn't driven by one issue or one cause; it's a combination of factors. One important driver is that the volume of correspondent banking flows is relatively small in this region. It's a combination of small populations dispersed over far-reaching and diverse geographical areas, and it often encompasses very remote locations, and that makes it difficult for correspondent banks, or even potential correspondent banks, to achieve economies of scale. So that's one driver.

A second important issue is that some countries have found it challenging to meet international regulatory requirements because they're small, they've got lots of competing demands on their resources, and that's challenging. And the regulations, we know that the bar is going up, so it's not easy. But we do need to find a solution to this issue.

The withdrawal of correspondent banking relationships poses large risks to economic and financial stability in the Pacific region at the household, the business and the government level. Remittances, as we know, can be an important source of incomes for households. Businesses rely on the ability to receive payments for exports, including tourism flows, which for many countries is very important. And governments also need to be able to import key supplies for their people and their nations. So maintaining the ability to send and receive these flows internationally is essential.

I'd have to say, pleasingly, there are some green shoots. We at the Bank welcome the initiatives by the Pacific Islands Forum secretariat and the World Bank, including the correspondent Banking Relationships' Road Map and the Strengthening Correspondent Banking Relationships Project. We at the Bank have met with the World Bank's team several times to provide comments on the proposal and we're really pleased to hear of the progress that they've made to date. It's also encouraging to hear of the wide-ranging commitment from the Pacific Island countries to participate in the project – that's really important – and we look forward to future conversations with all of our Pacific Island counterparts and the World Bank as this project progresses.

Now, in conjunction with development partners, there's also a lot of technical assistance and capacity-building initiatives underway, and some are planned in the region. At times, in the past, these projects have tended to be run in isolation and that's led to duplication of effort. So I think it's really good to have everyone here in the room because better coordination is going to be essential if we're going to more efficiently deliver these projects going forward. I think, tomorrow, you're all going to discuss what sorts of commitments we can make on coordination; I think that's really important.

So this Pacific Banking Forum is a key milestone in addressing the decline of correspondent banking relationships and facilitating this coordination, so I'd personally like to thank the governments of Australia and the United States for convening this forum because it brings together the largest number of stakeholders to date to address this issue. We've got stakeholders from public and private sectors from over 20 nations, which is absolutely marvellous. I've been struck tonight meeting regulators, central banks, governments and private sector; it's been astounding, the buy-in that we've got here.

I think it's very clear that making progress in arresting the decline of correspondent banking relationships does require collective action of this wide variety of people that we've got here today, and we all need to step up to the plate here. This includes continuing to improve and enforce AML/CFT standards. We need to ensure that Pacific Island countries are well supported in implementing those standards, and that's going to require effective collaboration from all of the development partners in this room. Over and above the AML/CFT standards, the private and the public sectors need to work collaboratively to stop the full withdrawal of correspondent banking relationships from any country; that's really important. For our part, the Reserve Bank, the RBA, we will continue to support development partners and Pacific Island central banks and banking authorities by providing technical expertise, and we'll be drawing on our long-standing relationships to try to facilitate coordination and advocate for positive outcomes in this region.

Finally, I'd just like to highlight something that all of you know: it's a difficult challenge and it's going to require all of us to be flexible. We need to be ready to change as initiatives develop, and we need to consider how we can overcome domestic challenges to move forward towards solutions. I want to thank you all for being here and for your participation, and I want to encourage you to use this opportunity to agree on what's required to move forward and to commit to prioritising the changes because we need to do this to ensure long-term, sustainable correspondent banking relationships in the Pacific region. So thank you and enjoy the rest of your evening.