



# Bank Policy Update

## BRINGING BANKING BACK HOME

Our national Balance of Payments data from the years before COVID-19 shows that up to **\$30 million of revenue earned in the Cook Islands is banked in accounts offshore every year**. This lost money ends up mostly in New Zealand and Australia, in accounts held by Cook Islanders living abroad and foreign shareholders of Cook Islands businesses.

As part of the Economic Recovery Roadmap (ERR), we want to **bring banking back home**. To do this, we need to find ways to soften the impact of our country's small scale on our banks. We also need to provide an enabling environment for our banks to make coordinated improvements to payments technology, so that accommodation providers and others can receive payments easily into Cook Islands bank accounts.

MFEM has had researchers look into ways the Cook Islands Government can effectively support bringing banking back home. The research we have had done supports two of our aims under the Economic Recovery Roadmap:

- Reducing barriers to business and supporting e-commerce
- Reducing the Cost of Borrowing in the Cook Islands

More information on the ERR can be found at [MFEM's website](#).

There is clear political support for bringing banking back home. But we face resource constraints in our national Budget. Any recommendations that require additional government spend are yet to be considered in the context of other government priorities.

## RESEARCH FINDINGS

*\$30 Million of Cook Islands revenue every year is banked offshore. Keeping this money here would help our economy grow*

Recent research conducted by BERL consultants [[available here](#)] found that due to the Cook Islands' economy's small scale, banking services provided by our three banks are duplicated. This results in extra costs in the supply of banking services. The lack of scale in the market for banking services leads to poor incentives to invest in new technology.



## *Our response to recommendations on Cook Islands banking services*

***Many of the recommendations we received involve an increased investment of government resources. The Government of the Cook Islands will continue to work with our development partners to find ways to resource these activities.***

The Government will continue to work with the banking sector to achieve the goal of more competitive cost of finance and a more efficient banking sector for the Cook Islands. Our first priorities are to:

- (1) build on existing initiatives around financial education and literacy
- (2) support improvements to electronic payment solutions for e-commerce
- (3) support regulatory strengthening and in particular the introduction of a modern payments regulatory regime.

Whilst we would like to support our banks in promoting technology uptake by bank customers, there are no additional resources available to government to do this at this time. It is encouraging to see that there are already moves in place to increase education, with the launch of the BCI banking app (TakuBCI) in 2022, and work done by the banking sector to improve financial literacy overall.

Continuous investment in new technology by our banks is needed to support online services, alternative forms of lending, and improved payments and settlements systems.

Our banks have done well trying to keep up, given the challenges they face. In the meantime, bank technology continues to move at a staggering pace making it difficult for our banks to continue to match consumer expectations.

BERL recommended short-to-medium term responses to improve banking and payments in the Cook Islands. They were careful to recommend actions that government could realistically expect to exert control over.

Whilst changes to land and tenure were also recommended, these were longer term projects and outside the scope of the immediate Economic Recovery period.



## Banking product development

***Improvements to Payment Solutions has been identified as a very high priority intervention under the e-commerce workstream of the Economic Recovery Roadmap.***

MFEM has tentatively begun scoping how government can work alongside our banks to support them in making improvements to Electronic Payment Solutions for e-commerce.

The consultants' recommendations to address key electronic payments objectives translate into three Strategic Outputs:

- Strategic Output P.1  
Increased competition in the payment services sector to reduce business and consumer costs
- Strategic Output P.2  
Strengthened awareness and utilisation of electronic payment solutions in the Cook Islands
- Strategy Output P.3  
Strengthened bank electronic interoperability

We will need to work with the banks to understand the improvements needed, and we will be seeking donor assistance to help us achieve improvements.

The Cook Islands Government has not adopted these Outputs as policy; they have only just been received (February 2023). We will be considering the suggested Strategic Outputs and the measures associated with them over the next two months.

In the meantime, MFEM policymakers are now clearer about priorities. We now know that payments services and bank payment interoperability is the most pressing and urgent challenge to e-commerce development in the Cook Islands. For example, when surveyed, the Private Sector identified Banking and Payment solutions as the most pressing challenge to e-commerce development in the Cook Islands.

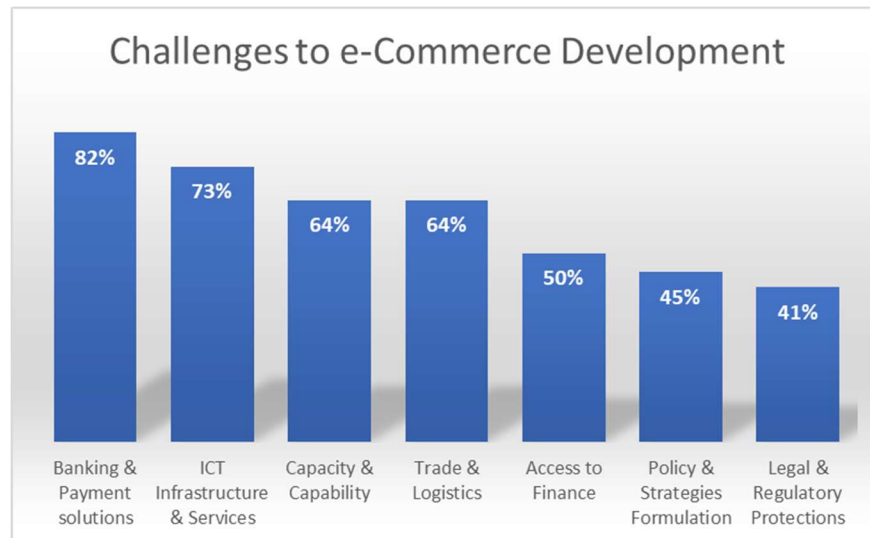
We know that use of a Cook Islands payment systems for government services like licensing or certifications realistically requires the introduction of a modern payments regulatory regime and better interoperability standards shared between our three banks.

Payment services and bank electronic interoperability is the biggest challenge we face in our goal of bringing banking back home.



## *Recent research identified Banking and Payment solutions as the most pressing challenge to e-commerce development in the Cook Islands*

### **Challenges to e-Commerce Development in the Cook Islands\***



Source: TradeWorthy (forthcoming), preliminary results of a survey of 67 participants (32 Government, 35 private sector)

## *Understanding the recommendations in more detail*

MFEM have been advised that the regulatory framework for payment service providers would benefit from modernisation, to support enhanced competition – new providers, new products and services. These can be supported through a streamlined licensing process, similar to those adopted in a number of markets across the Pacific, including Papua New Guinea, Fiji and Tonga. Despite the absence of a Central Bank which would ordinarily oversee the development of a National Payments System with tiered licences, the FSC can support increased competition through a modernisation of the current regulatory framework. In particular, payment service providers are currently regulated under the Money-Changing & Remittance Businesses Act of 2009, which has to deal with the complexities of new payment services (including mobile money, digital currency and many others) by placing conditions on licencees through a generic licence ‘condition’. A revised framework would create a specific licence for payment services, such as a ‘Money Service Licence’ or similar. This initiative is already in the strategic framework of the FSC: the consultants have recommended that it should be expedited.

Whilst the banking sector has significantly advanced their electronic payments offering to the market in the last 12-24 months, the banks have commented that they suffer from low uptake by local businesses. Costs and payment integration services (ie. Integrating payment service into websites) are reasonably commercial and straightforward. However, there is very low awareness of existing services among the business community, and a legacy of offshoring payment services via New Zealand bank accounts.

The consultants have suggested that Cook Islands Government could prioritise electronic payments solutions for Government services, including payroll and payment for fees and licences. This is already happening but over the next few months we will consider whether we have the funds under the Economic Recovery Roadmap budget to accelerate it to help build momentum for the payments sector. The model suggested by the consultants was the development of the payments system in PNG.



Further, the consultants have suggested that more effort be directed towards ‘reshoring’ of banking, by both the banks and Cook Islands Government. Reshoring can be addressed from two angles: a campaign highlighting new and existing payments services offered by local service providers with the added benefit to the overall Cook Islands economy, and seeking to engage with large international booking agents (predominantly in the tourism sector) to allow direct remittance into Cook Islands bank accounts.

## *Interoperability standards and integration*

The lack of interoperability between banks in the Cook Islands, which adds to delays and administrative costs, has also hampered growth. In the absence of a central bank, the sector can be supported to enhance interoperability in a number of ways. The adoption of a standardised bank account numbering system – perhaps aligned with NZ standards – will allow for faster local interbank settlement. The establishment of a unified payment gateway – to be led by one or more local banks – would also support speedier electronic payments in and out of the Cook Islands.

The issue of integration with the New Zealand banking system has been discussed for some time. While the BERL report has suggested faces considerable hurdles, the prospect of addressing ‘transactional integration’ could support faster settlement between New Zealand and the Cook Islands. Subject to further assessment, this could be achieved by a minor amendment to the Financial Transactions Reporting Act 2017 definition of ‘domestic electronic funds transfer’ to include New Zealand transfers.

The electronic payments sector is at an early stage of development in the Cook Islands, but there are signs of new entrants and new products and services. With appropriate measures there are prospects for rapid development of a faster, more affordable payments ecosystem in the Cook Islands.

## *Peer to peer lending*

MFEM received a recommendation that changes be introduced to support peer to peer lending.

MFEM support non-bank finance development in principle, but this proposal needs more exploration. In the meantime, our policymakers are optimistic that by taking action to modernize the payments licensing scheme and facilitate new payments offerings that other innovations in the non-bank finance space may occur spontaneously (with appropriate regulation introduced when the relative risks demand it).

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