Kina Bank Economics

On the Ground.

Enhancing compliance in challenging times: The importance of upholding compliance standards amidst a looming Grey-List.

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Dear Reader,

In this 'Special Feature Article' for Kina Bank Economics, we reflect on the developments and progress made so far as we anticipate the Grey-Listing of Papua New Guinea (PNG) by the Financial Action Task Force (FATF), which is expected early 2026.

The FATF grey-list has been the talk of town throughout this year (2025), and while so much has already been discussed, this reflection highlights critical issues of concern to our customer and stakeholders, and reemphasizes the invaluable importance of upholding and practicing the highest standards of risk and compliance.

Development of PNG's Financial Sector and AML/CTF Regulations

PNG's financial sector has grown steadily since 1973, when the Bank of Papua New Guinea (BPNG) was established—a crucial development that preceded national independence by two years. Over the past few decades, the financial system has undergone several rounds of regulatory reforms to keep pace with global standards.

In 2014, FATF identified key deficiencies in PNG's efforts to address financial crimes, which included weak legal and regulatory structures, poor enforcement mechanisms, limited inter-agency coordination, and inadequate financial intelligence capabilities; and resulted in the first grey-listing of PNG in 2014. This gave rise to the enactment of the 'Anti-Money Laundering and Counter Terrorist Financing Act 2015', which provided the legal framework and powers for the Financial Analysis and Supervision Unit (FASU) of BPNG to operate.

Since then, FASU has implemented and improved compliance with AML/CTF regulatory standards across all legitimate financial institutions regulated by BPNG. These added compliance requirements included tougher reporting requirements such as enhanced due diligence processes for customers, and strengthening monitoring systems throughout the financial industry.

While so much progress has been made, PNG still faces significant hurdles in enforcement, coordination between agencies, and successfully prosecuting financial crimes. According to FASU's 2024 Annual Report, the "principal sources of illicit proceeds in PNG continue to be corruption, bribery, fraud, and tax evasion". FASU has also reported that "there have been no recorded terrorist financing investigations, prosecutions, or convictions in PNG", which is "consistent with PNG's low domestic risk profile in relation to terrorism and terrorist financing".

The Evolution of Risk, Compliance, and AML/CTF Globally

The global battle against financial crime started in 1970 with the U.S. Bank Secrecy Act, followed by the formation of the Financial Action Task Force (FATF) in 1989. FATF is an inter-governmental body that acts as an international watchdog on global money laundering (ML) and terrorist financing (TF). Since its inception, over 200 countries have signed up to the principles of FATF. Thus, it's very difficult for a country to 'not comply' if you want to be part of global trade and the international economy.

As part of its mandate, FATF developed 40 Recommendations which quickly became the gold standard for Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) globally.

As time passed, AML/CTF frameworks have grown more sophisticated, now including:

- Know Your Customer (KYC) procedures
- Customer Due Diligence (CDD) requirements
- Suspicious Activity Reporting (SAR)
- Risk-Based Approaches to compliance
- Digital Identity Verification methods
- Crypto Assets (not common in PNG)
- Proliferation Financing (not common in PNG)

The primary objective of these protective measures is to prevent financial systems from being utilized for illicit activities, and corrupt practices.

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Impending FATF Grey-Listing expected in February 2026

Although PNG has implemented a comprehensive legislation to combat financial crimes, practical execution and enforcement continue to be significantly deficient. These shortcomings underpin FATF's considerations to place PNG back onto the grey-list in 2026.

According to the Asia-Pacific Group's (APG) Mutual Evaluation Report (MER) 2024, key reasons for the lack of enforcement include:

1. **Severe Resource Constraints**
   - The Royal PNG Constabulary (RPNGC), PNG's Police Force, continues to face critical shortages of skilled personnel and resources, including investigators, ICT infrastructure, and funding
   - Hence, AML/CTF functions receive low priority due to resource limitations
2. **Limited Skilled Capacity**
   - Key government authorities and agencies need more training to handle money laundering and financial crime cases
   - Many Non-commercial Banks & Financial Institutions (NBFIs) and Designated Non-Financial and Banking Professionals (DNFBP) demonstrate poor understanding of AML/CTF obligations
3. **A Lack of Inter-Agency Cooperation**
   - Minimal operational cooperation for ML investigations and asset confiscation
   - Agencies work in silos with rare ML case referrals and limited follow-up
4. **Inadequate Supervision**
   - FASU's supervision focuses primarily on commercial banks
   - DNFBP oversight is minimal with ineffective risk assessment tools
5. **Lack of Enforcement Culture**
   - Financial intelligence is rarely used to develop evidence or trace criminal proceeds
   - Few ML investigations/prosecutions with inconsistent sanctions
6. **Unclear Institutional Mandates**
   - The Independent Commission Against Corruption (ICAC) continues to have operational issues
   - Ambiguous division of responsibilities between ICAC and RPNGC for corruption-related ML investigations

Investments and Efforts by Commercial Banks in PNG

Commercial banks and NBFI's in PNG, including Kina Bank, continue to lead the way in investments and improvements in AML/CTF compliance over the years. These comprehensive measures represent a significant commitment to financial integrity and regulatory adherence.

The banking sector has implemented multi-faceted compliance approaches including:

- Enhanced Customer Due Diligence (ECDD) Systems: Banks have deployed sophisticated Know Your Customer (KYC) protocols and digital solutions that verify customer identities, assess risk profiles, and maintain comprehensive documentation throughout customer relationships.
- Advanced Transaction Surveillance: Modern monitoring systems have been integrated to identify unusual patterns, flag potentially suspicious activities, and apply risk-based screening protocols across all financial transactions.
- Robust Suspicious Activity Reporting: Streamlined mechanisms have been established to efficiently document and report suspicious transactions to appropriate regulatory authorities in accordance with national requirements.
- Comprehensive Personnel Development & Staff Training: Regular and thorough training programs are 'Business-as-usual' (BAU) practices that aim to ensure staff members understand current AML/CTF regulations, recognize warning signs of financial crimes, and follow proper escalation procedures.
- Rigorous Compliance Validation: Internal audit functions regularly evaluate compliance processes, identify potential vulnerabilities, and recommend system improvements.
- Coordinated Regulatory Engagement: Active collaboration with FASU and international organizations helps maintain regulatory alignment and adopt emerging best practices.

These initiatives form a critical component of PNG's broader financial sector reforms aimed at aligning with FATF's international standards. The banking and finance sector's proactive stance demonstrates a commitment to safeguarding PNG's financial system against illicit activities, while protecting the nation's international banking relationships and overall economic reputation.

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The Effects of Compliance and/or Non-Compliance

As the banking and finance industry in PNG strengthens its adherence to regulatory standards and compliance requirements, customers will ultimately reap the benefits of service quality, improved financial security, and greater transparency in all transactions.

When compliance standards are upheld, the benefits are;

Enhanced Financial System Integrity

- Customers operate within a more secure banking ecosystem with reduced vulnerability to systemic risks
- Greater stability in banks and NBFI's translates to better protection of personal assets
- Reduction in financial crimes creates a more trustworthy environment for conducting transactions

Significantly Improved Transparency

- Customers receive better disclosure about financial products, services, and associated fees
- Stronger safeguards against fraudulent schemes and exploitative practices
- Clearer documentation of financial activities provides better record-keeping for personal financial management

Continued Access to Global Financial Networks

- Higher standards of compliance preserve our existing correspondent banking relationships, which enables customers in PNG to continue to participate in the global economy
- Supports continuation of import/export activities for businesses relying on international trade

Banks and NBFI's have been maintaining high compliance standards, which our customers experience firsthand through the comprehensive documentation, forms, identification requirements, and verification processes we require. However, it's important to understand that these procedures represent the basic compliance requirements. Given PNG's looming grey-listing, these same Know Your Customer (KYC) protocols may intensify significantly. The level of scrutiny that customers and financial institutions currently navigate will increase, creating a substantially more demanding compliance environment for all stakeholders. This may result in;

More Rigorous Account Opening Procedures

- Customers face additional requirements for identification documents and proof of fund sources
- Lengthier verification processes before accounts become operational
- More intensive screening measures, especially for higher-risk customer profiles or transaction types, example; Politically Exposed Persons or PEPs

Extended Processing Timeframes

- Routine transactions may undergo additional scrutiny, creating noticeable delays
- International wire transfers may require supplementary verification steps
- Account updates or changes trigger more comprehensive review procedures

Escalating Service Costs

- Financial institutions often transfer the expenses of compliance infrastructure to customers
- Higher fees for transaction processing, particularly for international transfers
- Increased account maintenance charges to offset regulatory compliance investments

Diminished Access to Critical Financial Services

- Potential limitations on receiving overseas remittances from family members abroad
- Reduced availability of trade financing instruments for import/export businesses
- Possible withdrawal of certain financial products deemed too risky or compliance-intensive

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Post-FATF Grey-listing: Key Actions PNG Government Must Take to Exit FATF Grey-Listing

1. **Strengthen Inter-Agency Coordination:** PNG has created a multi-agency AML Task Force, but it must now ensure active collaboration among;
   - Bank of PNG (FASU)
   - Royal PNG Constabulary (RPNGC)
   - Internal Revenue Commission (IRC)
   - Customs
   - Immigration
   - Independent Commission Against Corruption (ICAC)
   - Auditor General's Office

   These agencies must share intelligence, conduct joint operations, and align enforcement priorities.
2. **Improve Effectiveness of Law Enforcement:** FATF emphasizes effectiveness, not just technical compliance, which means that PNG must;
   - Investigate and prosecute more money laundering cases (only two have been prosecuted since 2008, with over 5,000 cases referred to the RPNGC for investigations as of 2022).
   - Recover illicit assets and demonstrate successful enforcement of Proceeds of Crime laws.
   - Train police, prosecutors, and judges in financial crime cases.
3. **Enhance Beneficial Ownership Transparency:** PNG has introduced beneficial ownership disclosure, but must;
   - Ensure real-time access to ownership data for law enforcement.
   - Prevent misuse of shell companies and trusts for laundering.
4. **Supervise Non-Financial Sectors:** FATF flagged weak supervision of Designated Non-Financial Businesses and Professions (DNFBPs) like:
   - Real estate agents
   - Lawyers
   - Precious metal dealers
   - Alluvial mining companies
   - Jewellers
   - Casinos

   PNG must regulate and monitor these sectors for AML/CTF compliance.
5. **Demonstrate Risk-Based Implementation:** PNG must show that AML/CTF measures are tailored to its risk profile, especially in:
   - Rural, cash-based economies
   - Informal financial systems

   This includes inclusive KYC practices and financial literacy programs.
6. **Maintain Political Commitment and Oversight:** Continued political leadership, adequate budget support and resourcing to key Government agencies, and public accountability are essential.
7. **Report Progress to FATF/APG:** PNG's 12-month observation period ended this month, October 2025. It must submit evidence of progress on FATF's recommended actions and show measurable improvements in effectiveness.

Looking Ahead

The FATF grey listings typically last 2-5 years, with several Asia-Pacific countries currently affected, including Vietnam, Nepal, and Laos. Meanwhile, North Korea, Iran, and Myanmar, which have been Black-listed, experience more severe penalties including international sanctions and financial isolation. For PNG specifically, grey-listing presents an opportunity for comprehensive reform rather than just meeting technical requirements.

In the coming months, we expect to see the following;

- **November–December 2025:** Final post-observation report is being prepared for FATF review.
- **January 2026:** FATF will assess PNG's progress and decide on formal grey listing.
- **February 2026:** Expected formal inclusion on the FATF grey list.

As we continue to monitor and analyse upcoming developments and trends, it's important to be reminded that maintaining compliance is not merely about regulatory adherence—it represents a strategic investment in our financial ecosystem's integrity. Non-compliance carries substantial consequences including monetary penalties, reputational damage, potential loss of banking licenses, and disruption of correspondent banking relationships. These costs inevitably affect customers, and the economy at large.

By upholding compliance excellence today, we create a more stable, secure, and efficient financial environment that serves our customers' best interests while safeguarding the broader economic landscape.

Thank you for reading!

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