

THE WITHDRAWAL OF CORRESPONDENT BANKING RELATIONSHIPS: A CASE FOR POLICY ACTION

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Outline

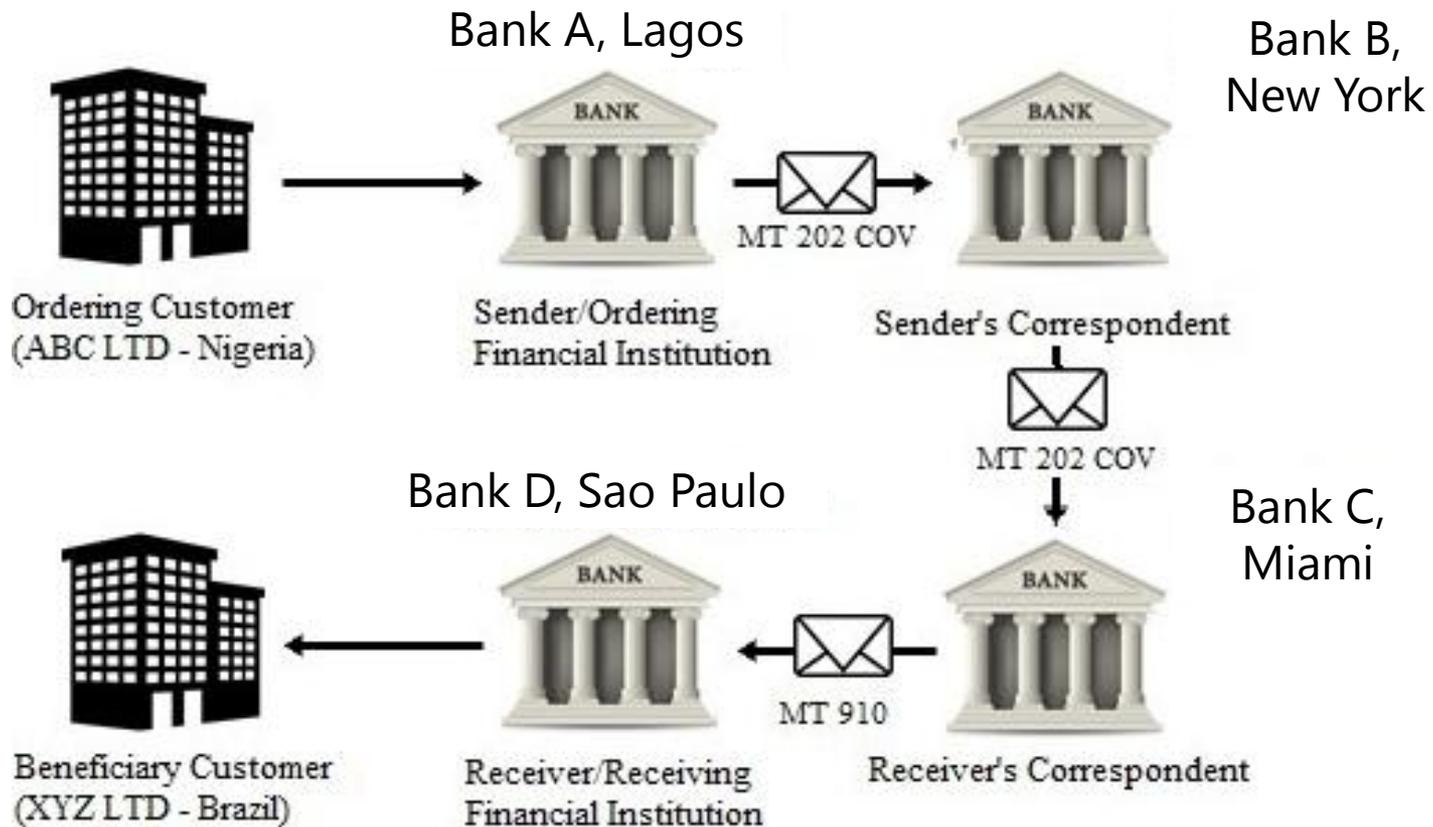
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- Evidence and Consequences
- Drivers of the Withdrawal of CBRs
- Initiatives to Address the Withdrawal of CBRs
- IMF Staff work so far
- The Way Forward

Correspondent Banking Relationships

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- Correspondent banking: key part of global payment system



Evidence and Consequences: Setting the Scene

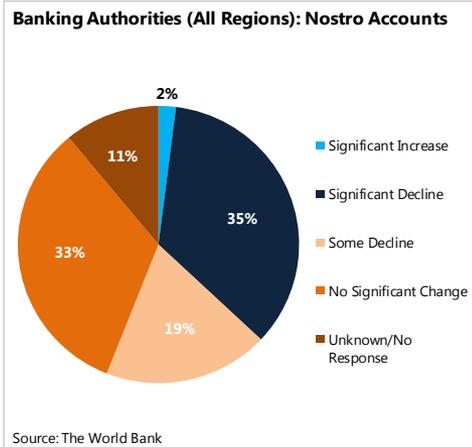
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- Limited data available so far
- Sources:
 - Surveys
 - Surveillance
 - Financial Sector Assessment Program
 - Discussions with Authorities and Industry
 - Outreach: Financial Stability Board, FATF, World Bank

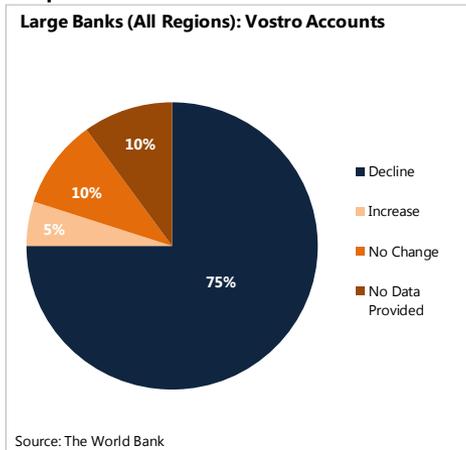
Withdrawal of CBRs: Survey Evidence

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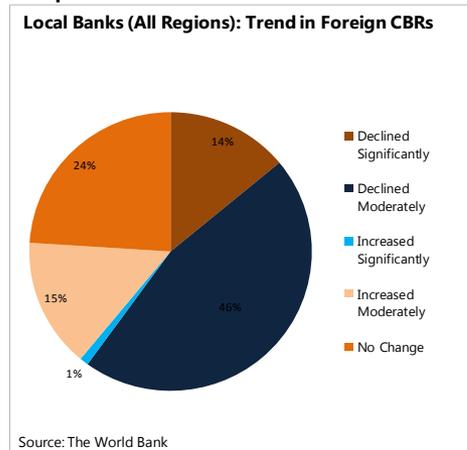
55% of Authorities reported a decline in CBRs



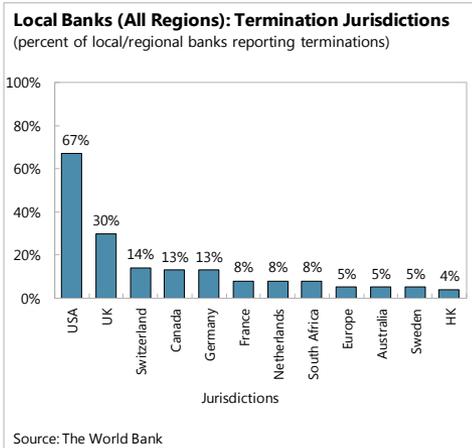
75% of Large global banks reported a decline in CBRs



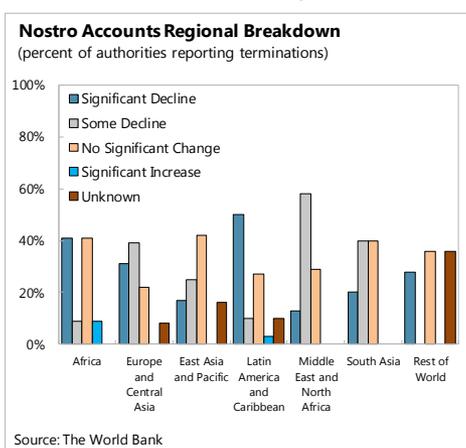
60% of local/regional banks reported a decline in CBRs



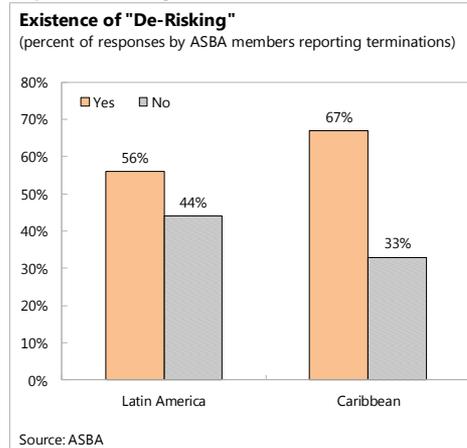
Local/Regional banks: U.S. and U.K. banks led the decline



Authorities: Significant decline noted in the Americas, Africa, Europe and Central Asia



The Caribbean appears particularly affected



Withdrawal of CBRs: Evidence From IMF Surveillance

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- **Caribbean:** Major global banks have terminated CBRs with many banks in the region
- **Small States of the Pacific:** Impact on the ease and cost of remittance transactions
- **Africa:** Problems in accessing bank dollar note supply and trade financing in some countries
- **MENA:** MVTs, NPOs, and countries under sanctions particularly affected

Consequences of Withdrawal of CBRs

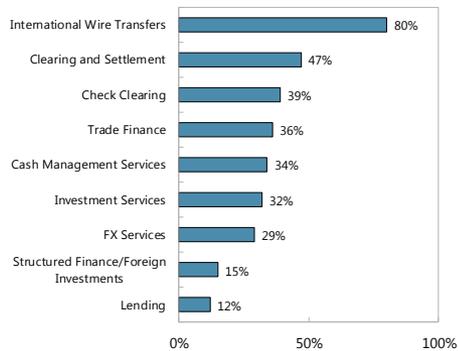
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- No global macroeconomic consequences identified so far
- Banks able to find alternative arrangements
- Countries affected in different ways:
 - Trade Finance (Liberia)
 - Remittances (Samoa, Somalia)
 - Banking Sector (Belize)
 - Access to Foreign Currency (Angola)
- Concern over risk migration

Global and Regional Impact

USD Wire transfers, clearing and settlement and trade finance most affected globally

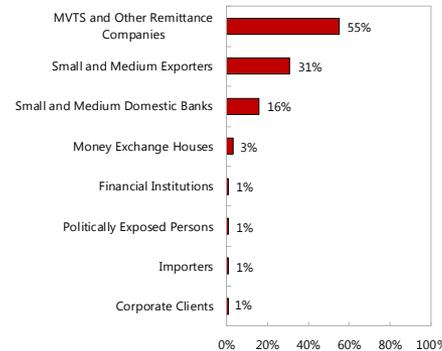
Banking Authorities (All Regions): Product Impact
(percent of authorities reporting on impact)



Source: The World Bank

Local banks: MVTS and small and medium exporters were most impacted globally

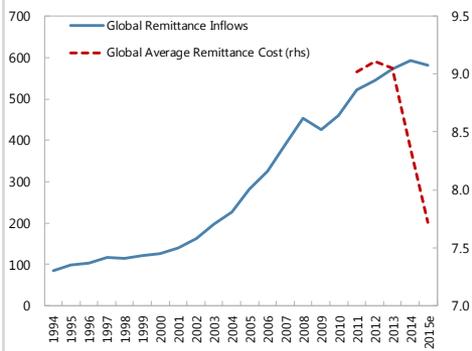
Local Banks (All Regions): Client Impact
(percent of local/regional banks reporting on impact)



Source: The World Bank

Globally: growth in volume and falling remittance costs

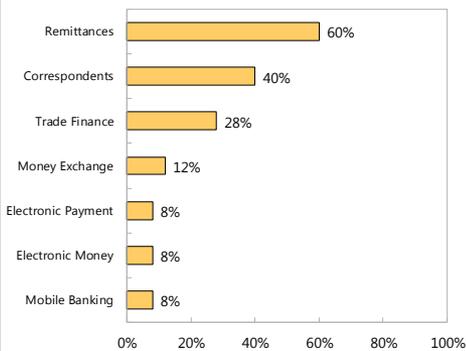
Remittance Inflows and Cost
(in billions USD) (in percent)



Source: The World Bank

Americas: remittances, CBRs and trade finance affected

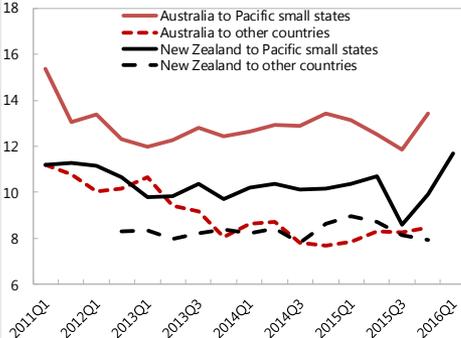
Latin America: Product Impact
(percent of ASBA members reporting on impact)



Source: ASBA

Asia-Pacific: high cost of remittances

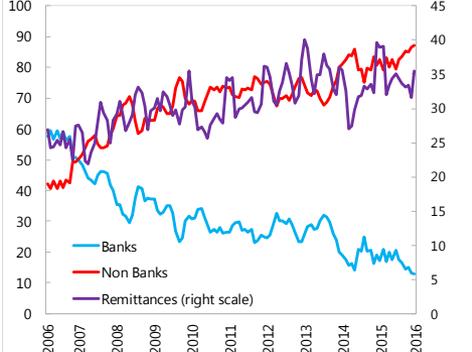
Cost of Sending \$200 from Australia and New Zealand
(in percent of transaction value, average)



Source: World Bank Remittance Prices Worldwide Database

Samoa: growing role of non-banks in remittances

Remittances By Share
(in percent, 3 month moving average) (in SAT million)



Source: Central Bank of Samoa

Drivers of the Withdrawal of CBRs

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- Banks' individual business decisions reflecting a cost-benefit analysis
- Drivers are multiple and operate concurrently
- Significance varies case-by-case
- Two broad categories:
 - Re-evaluation of business models
 - Changes to regulatory and enforcement landscape

Re-evaluation of Business Models Post-Global Financial Crisis

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- **Shift from cross-border to local lending by foreign affiliates**
- **Regulatory reforms have raised cost of banks' capital**
- **Macroeconomic conditions impacted banks' profits**
- **Large banks are structurally more risk averse**

Evolving Risks and Regulatory Requirements

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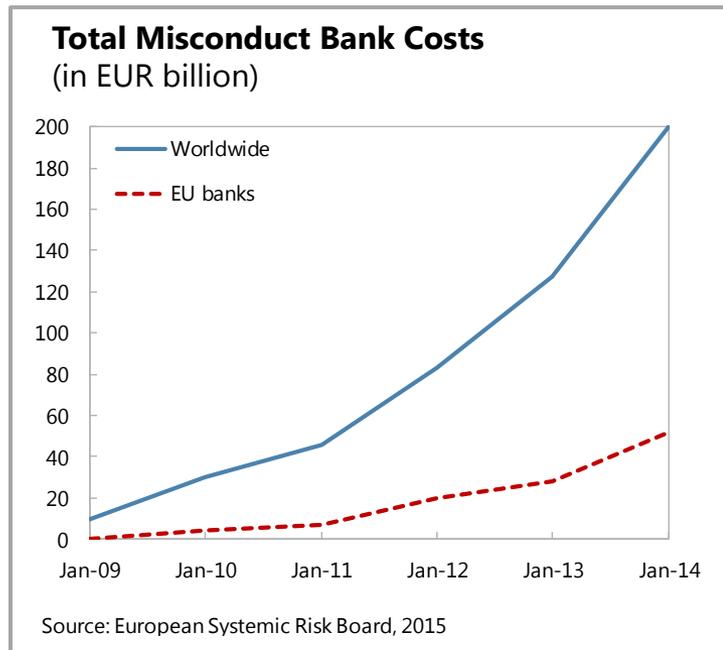
- Compliance with an expanding sanctions regime
- Implementation of a risk-based approach to AML/CFT
- International and/or bilateral initiatives, including:
 - Global Forum on Transparency and Exchange of Information for Tax Purposes
 - Financial Action Task Force “black list”
 - Bilateral tax compliance initiatives
- Increase in compliance costs

Enforcement Landscape

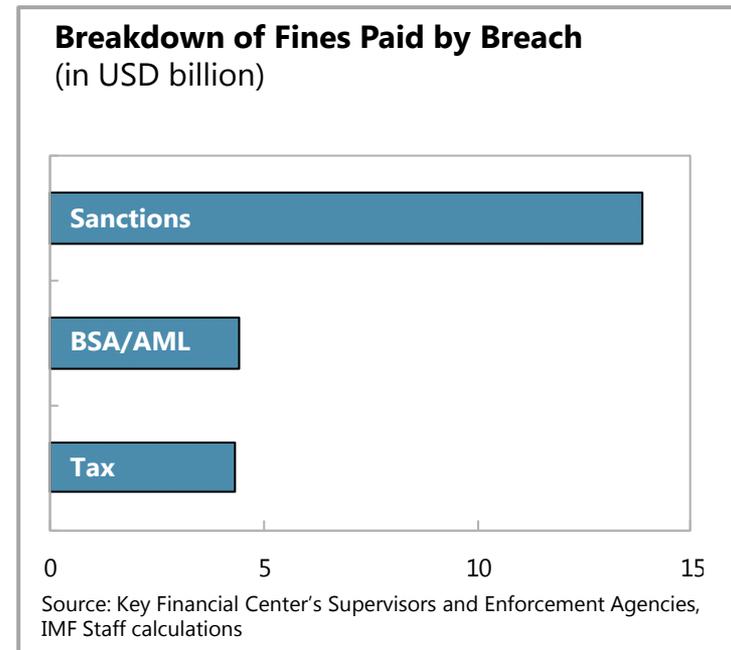
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- Increase in the high-profile enforcement actions shaped global bank's perceptions of regulatory expectations

While misconduct fines have grown worldwide...



... major enforcement actions on CDD-related breaches relate to U.S. sanctions



Uncertainty and Inconsistency of Regulatory Expectations

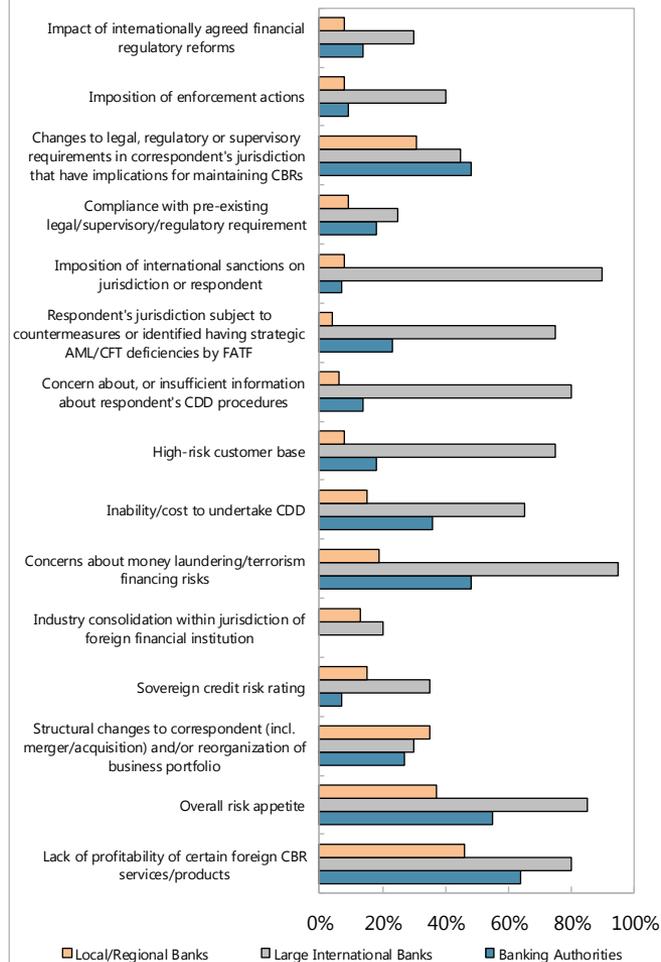
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- **Customer Due Diligence, including need to Know-Your-Customer's Customer:**
 - Views by global banks differ
 - Outreach by regulators on regulatory expectations and enforcement actions
- **Conflicting regulatory and/or legal requirements:**
 - Customer Due Diligence vs Data Protection and Privacy requirements
 - Hinder information sharing between banks

CBR Withdrawal Causes: Evidence from the World Bank Survey

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Percent of participating banking authorities, large international banks, and local/regional banks reporting the cause of termination of CBRs



Source: World Bank, IMF Staff compilation

Initiatives to Address CBR Withdrawal

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- 1 Clarifying Regulatory Expectations**
- 2 Strengthening and Aligning Regulatory and Supervisory Frameworks**
- 3 Industry Initiatives to lower Compliance Costs**
- 4 Contingency Planning and Public Support**

Initiatives:

(1) Clarifying Regulatory Expectations

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- **Greater outreach and education efforts on the application of regulations (particularly by home supervisors of global banks)**
- **Greater clarity in international standards and domestic regulations, including on AML/CFT**

Initiatives: (2) Strengthening and Aligning Regulatory and Supervisory Frameworks

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- **Effective regulation and supervision, in line with international standards**
- **Some national authorities took important policy action**

Initiatives:

(3) Lowering Compliance Costs

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- **Promote the use of KYC Utilities and the Legal Entity Identifier**
- **Review the format of payment messages**
- **Consider market-based solutions including bundling of banking products and risk-based pricing**
- **Use money transfer startups to offer lower cost alternatives to Money or Value Transfer Services**

Initiatives: (4) Contingency Planning and Public Support

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- **Contingency Plans:**
 - Enhance communication with home authorities and global banks
 - Map necessary legal and regulatory changes

- **The role of public entities:**
 - Build on country experiences
 - Assess the legal and operational feasibility and mitigate potential risk exposure for central banks
 - Comply with AML/CFT obligations

IMF Staff Work so far

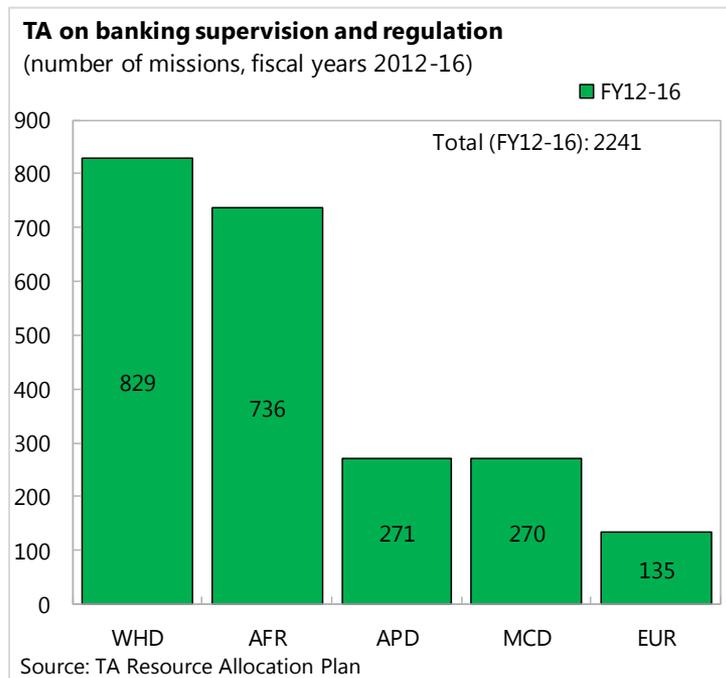
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- Dialogue with different stakeholders, including:
 - FSB RCGs, WB, industry representatives
- Enhanced surveillance and capacity building effort:
 - **Article IV:** Assess macro-impact and provide advice
 - **FSAP:** Assess supervisory and regulatory frameworks and promote implementation of international standards
 - **Technical Assistance:** Strengthen regulatory and supervisory frameworks

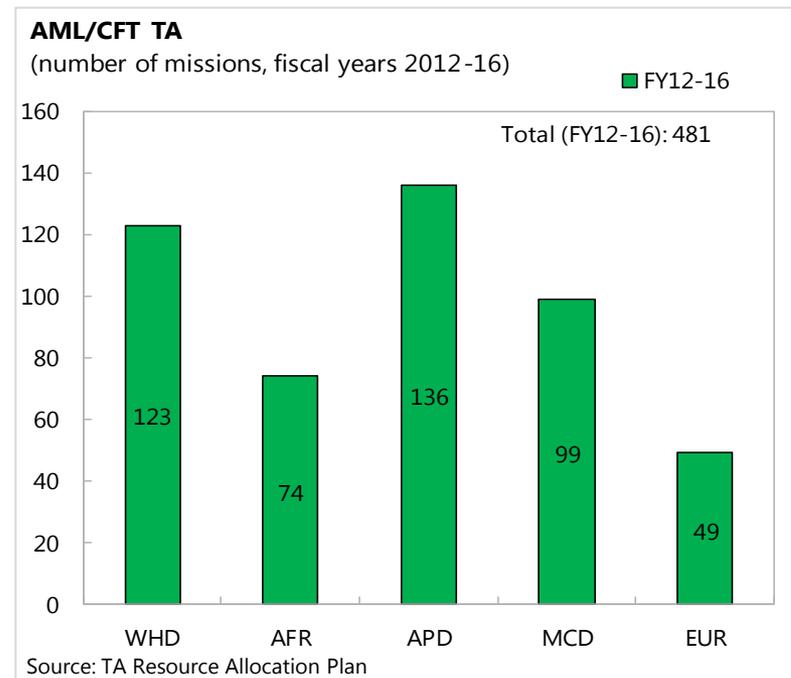
IMF Staff Work so far: Technical Assistance

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TA to strengthen supervision and regulation focused in the Americas and Africa...



... while TA to strengthen AML/CFT standards have been substantial across all regions



The Way Forward

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- **Continue analyzing causes and implications**
- **Further clarify international standards and national regulators' expectations**
- **Facilitate cross-border information sharing and data collection**
- **Continue TA and promote industry initiatives to lower compliance costs**
- **Assess business models relying on opaque structures**
- **Public sector involvement**

THANK YOU