Correspondent Banking Relationships

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Outline

1. Overall Trends
2. Fund’s Multipronged Approach
3. Key Messages
4. The Way Forward
What Have Been the Overall Trends?

- CBRs under pressure in several countries
- Limited direct impact because of alternative arrangements put in place
- High concentration in cross-border flows accentuating financial fragilities
- Could undermine long-term growth and financial inclusion prospects
Highlights of the Fund’s Work

- October 2017: Working Paper on CBRs in the Caribbean
- April 2017: Board Paper on Recent Trends in CBRs
- June 2016: Staff Discussion Note on Withdrawal of CBRs
- October 2015: FSB/IMF/WB 1st Roundtable
- February 2017: 1st Caribbean Roundtable
- February 2017: 1st AMF-IMF Workshop
- October 2015: 1st AMF-IMF Workshop
- September 2017: Working Paper on CBRs in the Caribbean
- October 2016: FSB/IMF/WB 2nd Roundtable
- IMF Conference on CBRs
- November 2017: 2nd Caribbean Roundtable
- October 2017: SSA High Level Seminar
- February 2018: 1st Pacific Roundtable
- March 2018: Update to the Board on CBRs
- May 2018: SSA Roundtable
- October 2018: 3rd Caribbean Roundtable
- SSA Roundtable
Fund's Multipronged Approach

I. Monitor Trends
II. Monitor Risks & Drivers
III. Facilitate Dialogue
IV. Tailor Capacity Development
V. Engage in cases involving tail-risk scenarios

Not yet materialized
**Fund’s Multipronged Approach**

I. Monitor Trends

II. Monitor Risks & Drivers

III. Facilitate Dialogue

IV. Tailor Capacity Development

V. Engage in cases involving tail-risk scenarios
I. Monitoring Trends

Recent Trends in CBR Withdrawal

The decline in CBRs, while stabilizing in some regions, remains a concern

Number of active counterparty countries by region (average percent change across region)

Source: FSB, SWIFT Watch, National Bank of Belgium.
I. Monitoring Trends

Recent Trends in CBR Withdrawal

... along with the concentration of active correspondents.

Concentration of active correspondents
(GINI coefficient per corridor, 3mo. moving avg.)

Source: FSB, SWIFT Watch, National Bank of Belgium.
I. Monitoring Trends

The macroeconomic impact appears contained, but challenges remain...

While remittance costs seem negatively associated with number of active correspondents…

… they have remained stable on a global level, but remain a challenge in some regions.

Source: Staff calculations based on FSB (2017), World Bank Remittances Prices Worldwide, World Bank Migration and Remittances Database.
Remittances: Extent of the Problem

❖ Most jurisdictions say remittance firms are one of the sectors most affected by loss of correspondent banking services.

❖ In developing countries, remittance flows are frequently a key source of funds for households and represent a significant percentage of GDP

❖ Remittance flows to low- and middle-income countries are expected to increase by 4.8% in 2017 and 3.5% in 2018 to US$466 bn
  ❖ Sub-Saharan Africa, Europe and Central Asia, and Latin America and the Caribbean are likely to see the strongest growth in remittance inflows
  ❖ Although remittance costs have declined over the past decade, the global average cost of sending US$200 remained at 7.2% in the third quarter of 2017 and is well above the United Nations' Sustainable Development Goal target of 3%.

❖ Loss of correspondent banking relationships poses a challenge to the provision and cost of remittance services
  ❖ Concentration leads to financial stability and financial inclusion concerns
  ❖ May drive flows underground, increasing AML/CFT risks

Source: FSB.
Fund’s Multipronged Approach

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II. Monitoring Risks & Drivers

Drivers of CBR pressures remain the same

CBR Pressures

[Business relationship based on trust]

Profitability
- Capital
  - New Capital Requirements
  - New Liquidity Requirements
- Income
- Cost
  - Increasing Compliance Requirements

Risk Assessment
- Risk Tolerance
  - Lack of Clarity and Consistency of Regulatory Expectations
  - High Profile Enforcement Actions
  - NPAs/DPAs/Consent Orders
- Specific CBR Risk
  - Respondent Bank's Customer Base and Business Model
  - Compliance Framework of Respondent Bank, including for AML/CFT
  - Jurisdiction's Risk Environment, including ML/TF Risk
  - Obstacles to Risk Management
II. Monitoring Risks & Drivers

Drivers which have recently gained more attention

- Corruption
- Transparency - Beneficial Ownership
- New International & Bilateral Sanctions
Remittances: Causes of the Problem

Reasons cited by banks for terminating services to remittance firms

❖ Profitability

❖ **Perceived** high risk of some remittance firms’ practices because of …
  ❖ Business models: large volumes of cash transactions; sending money to jurisdictions that are considered high risk; principal-agent model
  ❖ Diversity of firms in size, sophistication, target markets, etc.

❖ Lack of confidence in the supervision of remittance firms

❖ Lack of compliance with international standards (FATF) in some jurisdictions

Source: FSB.
II. Monitoring Risks & Drivers

The discussion of CBR issues in AIV reached a peak in 2016

CBRs issues were discussed across all regions

Proportion of published Article IV Staff Reports which include references to CBR

- 2014: 3%
- 2015: 8%
- 2016: 31%
- 2017: 22%

Number of staff reports with reference to CBRs per Region (2014-2017)

- WHD: 43%
- APD: 19%
- MCD: 16%
- AFR: 12%
- EUR: 10%
II. Monitoring Risks & Drivers

- Staff continues to discuss CBR issues in Article IV
  - Belize – holistic approach of issues – trends, risks and macrofinancial linkages
  - Marshall islands – significant risks to issuance of sovereign digital currency
- Countries are using the IMF-developed monitoring framework to identify trends
  - Cabo Verde, Seychelles, Jamaica, Belize
Fund’s Multipronged Approach

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III. Efforts to Facilitate Dialogue

Global partners…

G20 & G24

THE WORLD BANK

IFC

INTERNATIONAL MONETARY FUND

FATF & FSRBs

…Regional partners…

…National authorities…

Across regions

…Private sector…

Global Banks

Domestic Banks

Money Service Businesses
The FSB Action Plan

Data collection and analysis
- Monitoring based on SWIFT data
- FSB survey of 345 banks
- World Bank case studies
- IMF monitoring framework

Clarifying regulatory expectations
- New FATF guidance
- Revised BCBS guidance
- Next – follow-up on national application

Capacity building
- Inventory of technical assistance
- Workshop for TA providers
- Capacity building by private sector

Technical solutions to improve the efficiency of due diligence
- Know-Your-Customer (KYC) utilities – clarified expectations and workshops
- Use of the Legal Entity Identifier (LEI)
- Information sharing initiatives – new FATF guidance
- Correct use of payment messages – supervisory guidance and SWIFT guidelines

Source: FSB.
FSB Stocktake of Remittance Service Providers’ Access to Banking Services

- Promote dialogue and communication between the banking and remittance sectors
- International standards and oversight of the remittance sector
- Use innovation in the remittance sector
- Remittance-related technical assistance
III. Efforts to Facilitate Dialogue

Fund’s Regional Initiatives

Joint AMF-IMF High-Level Workshops
UAE, October 2015
UAE, September 2017

Africa High Level Seminar
Washington D.C., October 2017
South Africa, May 2018

Caribbean Roundtables
Barbados, February 2017
Jamaica, November 2017
Bahamas, October 2018

Pacific Roundtables
Australia, February 2018
New Zealand, February 2018
### III. Efforts to Facilitate Dialogue

Outcome of regional initiatives highlighted the following measures to address CBR pressures

#### Major/Good Progress in Implementing
- Enhancing communication between banks, removing impediments to information sharing
- Consolidating transaction traffic “down-streaming”
- Strengthening capacity of respondent banks
- Improving regulatory and supervisory frameworks, including for AML/CFT

#### Limited Progress in Implementation, so far
- KYC utilities, LEI, digital identity
- Fintech
- Regional payment and clearance systems
- Setting up of public banks

Measures identified by private sector
SSA Seminar highlighted the following measures to address CBR pressures

<table>
<thead>
<tr>
<th>Key Solutions</th>
<th>Ongoing</th>
<th>Short / medium term</th>
<th>Long term</th>
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<tbody>
<tr>
<td>Enhancing outreach and communication between banks</td>
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<td>Technical assistance and training by global correspondent banks</td>
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<tr>
<td>Removing information sharing barriers</td>
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<tr>
<td>Consolidating transactional traffic</td>
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<tr>
<td>Fintech</td>
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<tr>
<td>New technologies (mobile payment platforms)</td>
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<tr>
<td>Consolidating AML/CFT supervision and regulation</td>
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- Mobile payment platforms have been successful (MPESA).
- Cross-border payments between some countries in the region could ultimately be possible via-crypto currency links.
- Fintech / digital solutions have potential though most have yet to be developed and broadly implemented.
- Need for a level playing field and standardization of regulatory frameworks.
Fund’s Multipronged Approach

I. Enhance Data Gathering

II. Monitor Risks & Drivers

III. Facilitate Dialogue

IV. Tailor Capacity Development

V. Engage in cases involving tail-risk scenarios
IV. Tailoring Capacity Development

- Continued capacity development to strengthen AML/CFT regimes and banking supervision (Seychelles)
- Tailored technical assistance to help address CBR pressures (e.g., Angola, Belize, Guatemala, Jamaica, Solomon Islands) and monitor trends (e.g., data monitoring tool – Bahamas, Belize, Guyana, Cayman Islands)
- Develop regional responses in collaboration with regional CD providers.
- Fund is collaborating with the FSB, including on CD coordination
Key Messages

❖ The current trends in CBRs suggest that the decline in CBRs continues, though it seems to have stabilized in some of the countries that were badly affected (Belize).

❖ While financial fragilities remain in a limited number of countries, overall concentration is still high.

❖ Potential negative impact on financial inclusion and remittances requires continued attention.

❖ Drivers of CBR pressures remain the same (e.g. lack of clarity over regulatory expectations; weaknesses in regulatory and supervisory frameworks, including for AML/CFT).

❖ In addition, some financial integrity issues (e.g. corruption, transparency, sanctions) have recently gained more attention.
Key Messages

❖ IMF staff have continued to:

❖ Monitor risks through AIV surveillance and FSAP.

❖ Provide CD, including to specifically address drivers of CBR pressure and help authorities collect data and monitor CBR trends.

❖ Help identify solutions, some of which have been successfully implemented.

❖ e.g. enhanced communication between banks, strengthening respondent’s bank capacities, help supervisors monitor trends, consolidation of transactional traffic.
The Way Forward

❖ Continue implementing multipronged approach:
   ❖ Monitor risks
   ❖ Assess macro-criticality of this issue
   ❖ Provide targeted technical assistance & training
   ❖ Use Fund’s convening power
   ❖ Collaborate with other stakeholders on these issues

❖ Upcoming events:
   ❖ 3rd Caribbean roundtable (October 2018)
   ❖ 2nd Pacific roundtable (Feb. / March 2019)
Thank You