



WORLD BANK GROUP

The World Bank's Data Gathering Efforts: De-risking?

Key Findings and Recommendations

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Overview

- Why do we care?
- What is “de-risking” vs. business-related decisions?
- WBG data gathering efforts
 - Correspondent banking relationships (CBRs) – method and key findings
 - Money transfer operator (MTO) account access – method and key findings
- Recommendations

Why do we care?

- Need to move from anecdotal evidence to structured facts
- G20 and Financial Stability Board (FSB) interest and requests for the World Bank to be involved
- Global importance of correspondent banking and remittances for development
- Fact-based evidence to support policy action, if needed

“De-risking” vs. business-related decisions

“De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.”

Decisions by banks to withdraw correspondent banking relationships or other services (such as accounts for certain client segments) based on an analysis of factors, including but not limited to economic factors, regulatory and risk concerns.

Not all of this activity is “de-risking”

World Bank data gathering efforts

Between April and October 2015, the World Bank Group conducted two surveys on de-risking

- 1) Survey on the withdrawal from correspondent banking, in coordination with the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI)
- 2) Survey on MTO account access, at the request of G20 Global Partnership for Financial Inclusion (GPFI) and the Development Working Group (DWG)

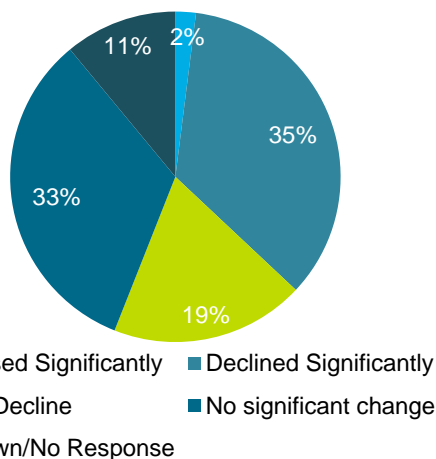
CBR Survey - method and participation

- The data and information are drawn primarily from three sources:
 1. Surveys of banking authorities, large international banks, and local/regional banks
 2. High level fora with officials of central banks and other banking authorities and representatives of banks
 3. Follow-up discussions by the project team with authorities and banks
- This is not a comprehensive, quantitative survey
- **Participation:** 110 banking authorities, 20 large banks and 170 smaller local and regional banks

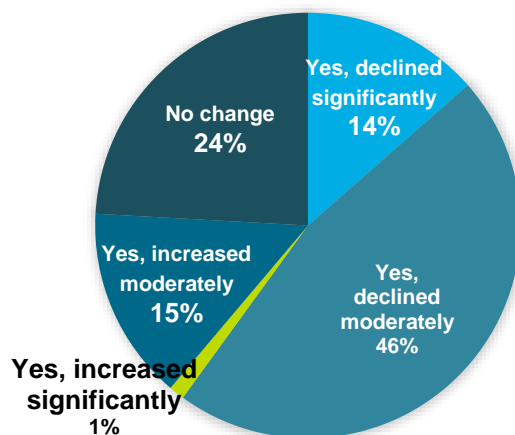
CBR Survey – overall trends in CBRs

- Roughly half the surveyed banking authorities local/regional banks experienced a decline in CBRs
- 75% of large international banks indicated a decline

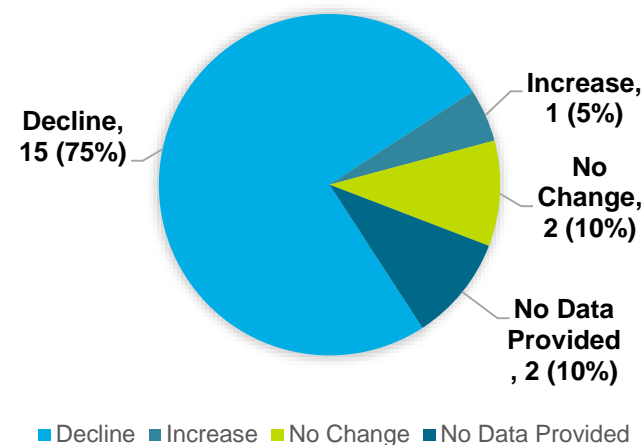
Authorities: Nostro Accounts Trend



Local/ Regional Banks: Nostro Accounts Trend



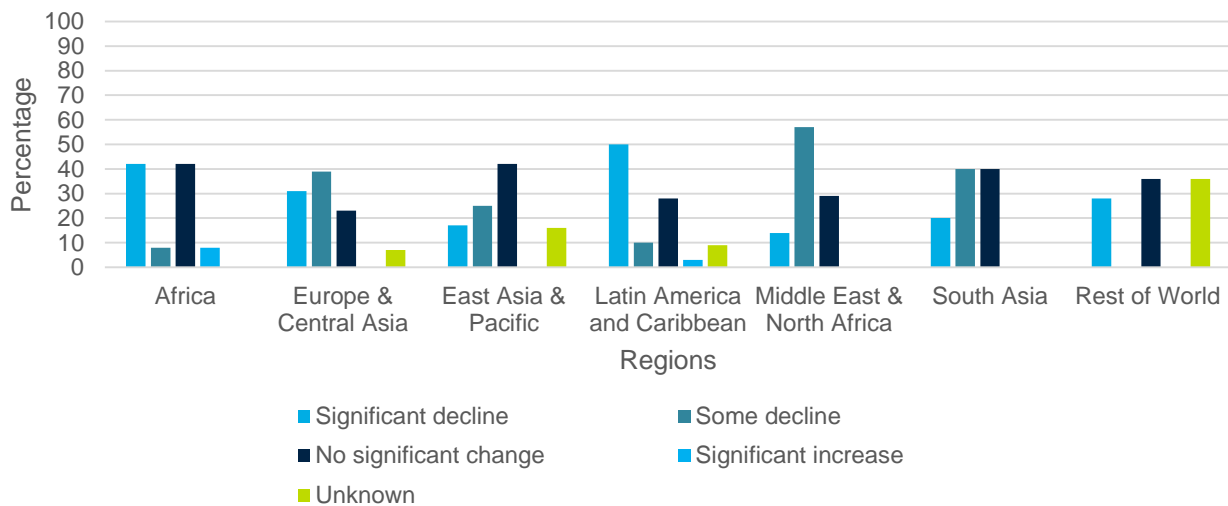
Large Banks: Vostro Accounts Trend



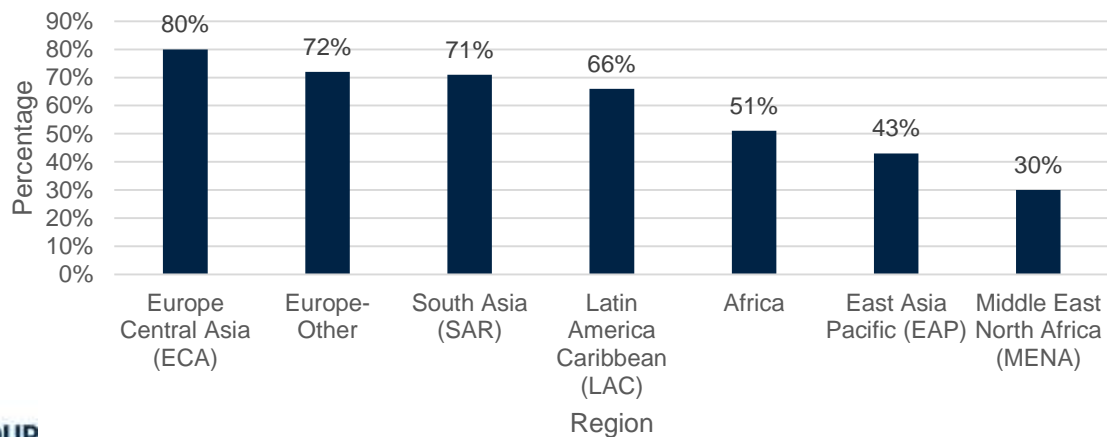
The terms “nostro” (ours) and “vostro” (yours) are used to refer to a bank holding an account with another bank to distinguish between the two sets of records of the same balance and set of transactions.

CBR Survey – regional breakdown

Authorities: Trend in foreign CBRs- Nostro accounts
Regional breakdown (%)



Local/ Regional Banks: Decline in CBRs by region

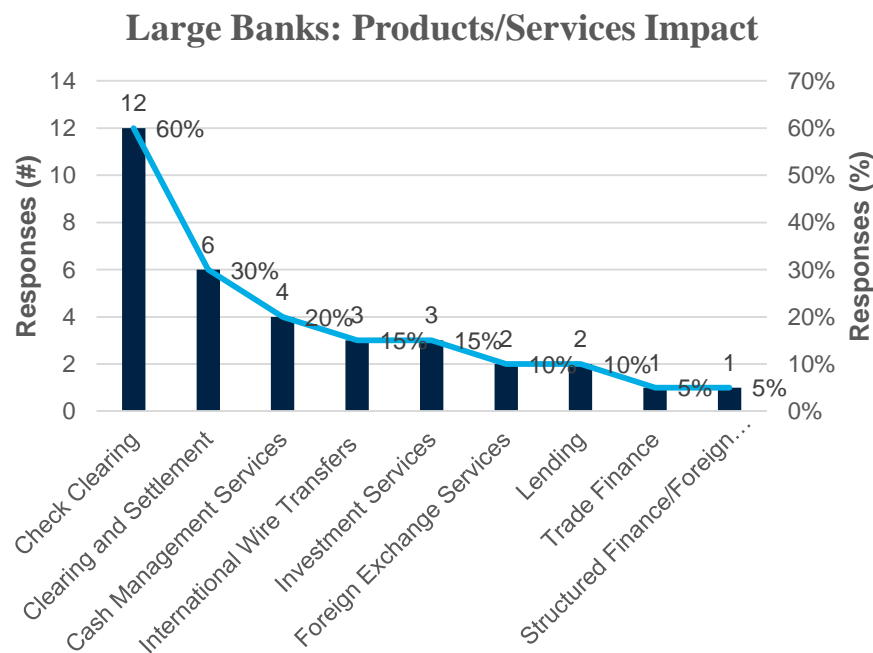


CBR Survey – affected jurisdiction profiles

- Small jurisdictions with low volumes of business/transactions
- Small jurisdictions with significant offshore banking activities
- Jurisdictions perceived as high- risk or subject to international sanctions
- The decline in foreign CBRs appears to play a role in the financial institutions of major world economies, as well

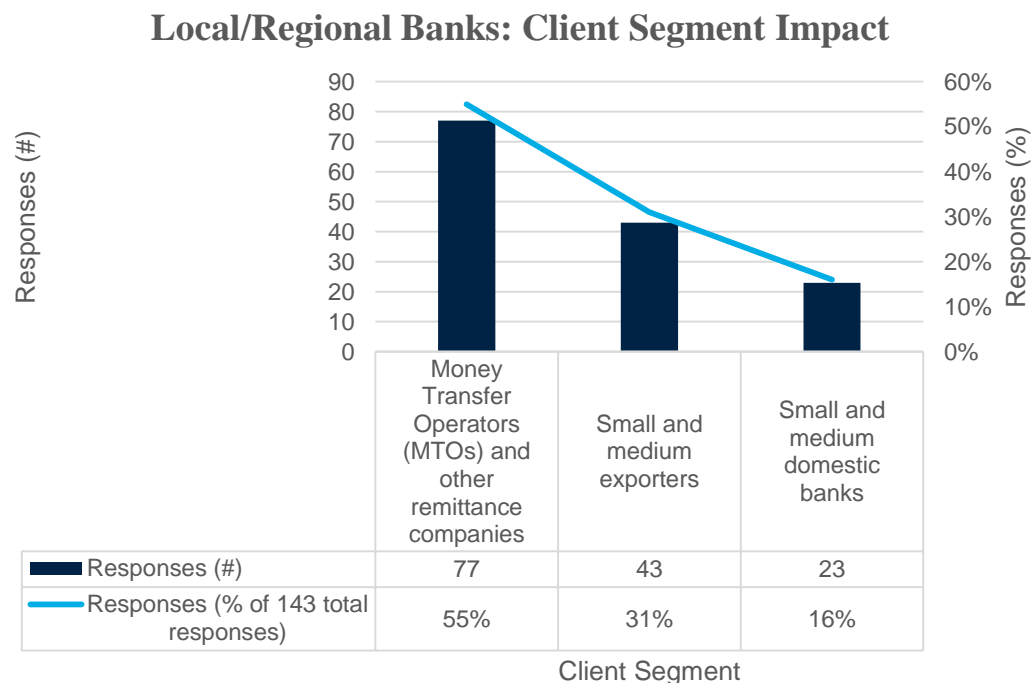
CBR Survey – impact on products and services

- **Affected Products and Services:** (check) clearing and settlement, cash management services, international wire transfers and, for banking authorities and local/regional banks, trade finance.
- **Affected currencies:** The ability to conduct foreign currency denominated capital or current account transactions in US dollar (USD) has been most significantly affected followed by Euro, pound sterling (GBP), and Canadian dollar (CAD) denominated transactions.



CBR Survey – client segment impact

- Affected Client Segments:** Money transfer operators and other remittance companies are most affected, followed by small and medium domestic banks and small and medium exporters.



CBR Survey – causes of decline

The drivers of the decline in foreign CBRs in two interrelated groups:

- **Group 1:** business related, explaining the decision to terminate a foreign CBR in purely economic terms
- **Group 2:** regulatory and risk related, explaining the decision to sever ties with certain actors as based on level of unmanageable ML/FT risk of counterpart, international/regional sanctions

Comparing drivers of termination/restriction of foreign CBRs for different respondents

	Banking Authorities (%)	Large Banks (%)	Local Banks (%)
Lack of profitability of certain foreign CBR services/products	64	80	46
Overall risk appetite	55	85	37
Changes to legal, regulatory or supervisory requirements in correspondent's jurisdiction that have implications for maintaining CBRs	48	45	31
Structural changes to correspondent (including merger/acquisition) and/or reorganization of business portfolio	27	30	35
Concerns about money laundering/terrorism financing risks	48	95	19
Sovereign credit risk rating	7	35	15
Inability/cost to undertake CDD	36	65	15
Industry consolidation within jurisdiction of foreign financial institution	None	20	13
Imposition of enforcement actions	9	40	8
High-risk customer base	18	75	8
Imposition of international sanctions on jurisdiction or respondent	7	90	8
Impact of internationally agreed financial regulatory reforms	14	30	8
Compliance with pre-existing legal/ supervisory / regulatory requirement	18	25	9
Concern about, or insufficient information about respondent's CDD procedures	14	80	6
Respondent's jurisdiction subject to countermeasures or identified having strategic AML/CFT deficiencies by FATF	23	75	4

*N.B. The respondents were allowed to choose multiple options

CBR Survey – know your customer’s customer?

- There is a policy debate whether there is an obligation to conduct due diligence on the customer’s customer(s) – in the context of CBR, this means the customers of the respondent bank
- There is misunderstanding of this issue, especially among local/regional banks and banking authorities
- Most large banks do not consider having an explicit legal KYCC obligation
- However, in certain cases large banks do conduct such diligence on a risk basis

CBR Survey – finding replacements

- The ability of financial institutions in affected jurisdictions to find alternative correspondent banks varied, but the majority indicated they were able so far to find replacements
- Time/cost involved in finding alternative channels are significant and the terms and conditions were not comparable to the previous foreign CBRs, with some noting a substantial increase in pricing
- Unclear whether the withdrawal of correspondent banking services has resulted in banks finding alternatives in ‘nested accounts’

MTO Survey – method and participation

Method: At the request of the G20 GPFI and DWG, the World Bank conducted an online survey in G20 countries to government authorities, banks, and MTOs.

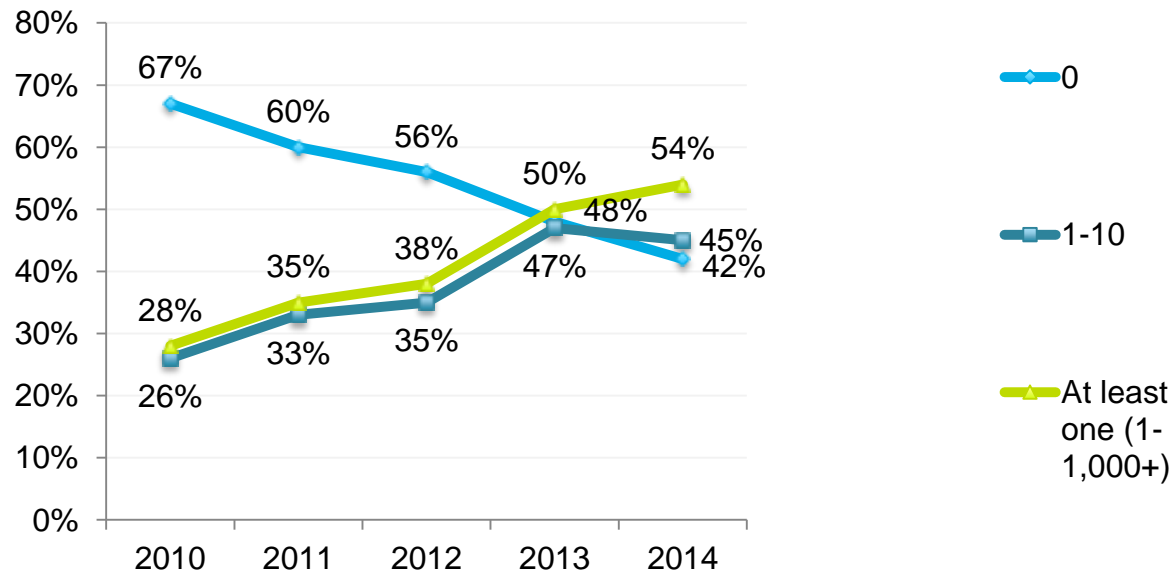
Participation: 13 governments, 25 banks and 82 MTOs completed the survey. Despite relatively low response rates achieved, the data gathered can still be considered to be indicative of the MTOs market reality, considering that the companies that provided inputs include some of the most prominent players in the market.

MTO Survey – overall trend in account closure

Between 2010 and 2014 MTO account closure in some countries (including Australia, Canada, Germany, France, Italy, Mexico, the UK and the US) have become more pronounced

Trend in Bank Account Closures for MTO Clients (2010 – 2014, MTO Perspective)

Has your firm, as principal MTO, had bank accounts closed that impede your ability to provide international remittance services? Please record the number of accounts closed.



MTO Survey – access to accounts

- Of the MTOs surveyed, 28% of MTO principals and 45% of their agents can no longer access banking services
- Of that smaller group of MTO principals without access, 75% are maintaining their presence in the market by using alternative channels to clear and settle the amounts at international level
- The other 25% of MTO principal respondents are currently unable to operate regularly through bank channels.

Access to Bank Accounts for MTOs and their Agents

In the country in which you are based, does your firm, as a principal MTO, currently lack complete access to a bank account in providing international remittance services?

In the country in which you are based, do your agents currently lack complete access to a bank account in providing remittance transfer services?

	Yes		No		Total
Yes	23	100%	14	24%	37
No	0	0%	45	76%	45
Total	23	28%	59	72%	82

MTO Survey – drivers for account closures

While the responses from Banks and MTOs do not perfectly align on the question of drivers of account closures, they are mutually reinforcing on most points

Banks' Responses	MTO Responses
1. Profitability	1. Fear of regulatory scrutiny
2. Pressure from other actors (correspondent bank or law enforcement)	2. Reputational risk
3. Lack of confidence in MTOs' procedures	3. Profitability
4. Reputational risk	4. Fear of losing access to correspondent banking relationships

MTO Survey – views on supervision

- One area where it is clear there are differing views is the effectiveness of supervision of the MTO sector
 - 85% of the governments that responded stated they believe banks can rely on adequate supervision of the MTO sector
 - 88% of MTO respondents agreed that their sector was sufficiently supervised
 - Only 52% of bank respondents judged that the MTO sector is sufficiently supervised
 - Only 48% of bank respondents felt that they can rely on the supervision of the MTO sector to inform risk-based decisions on opening/maintaining accounts for MTO customers

MTO Survey – AML/CFT violations

- In this sample, very few MTOs (principals or agents) that have been fined, suspended, sanctioned or received some other enforcement action for an AML/CFT-related violation between 2012 and 2014, however, the number has increased over time
- Only two of the responding governments indicated that a bank operating in their country has been fined, suspended, sanctioned for an AML/CFT-related violation associated with their relationship with MTOs
- 78% of MTO respondents indicated no record of sanctions or other enforcement actions related to AML/CFT.

MTOs fined, suspended, sanctioned for AML/CFT

MTOs fined, suspended or sanctioned	2014	2013	2012
0	8	8	9
1 – 10	2	3	2
11-50	1		
51 – 100	1		
Don't know/Refusal	1	2	2

MTO Survey – Possible impact on costs

- The effects of de-risking on the cost of remittances are still uncertain. At the moment there are no evident patterns that could clearly link cost increases to the de-risking phenomenon
- However, in countries where de-risking is more acute, some cost increase trends have been identified through the review of the data in the RPW database:
 - In the last 12 months cost increased in 64% of the corridors from the UK (18/28 corridors) and in 50% of the corridors from Australia (5/10 corridors)
 - In the last quarter, nearly 40% of the corridors from the USA experienced a cost increase (12/31)
 - In the last year, the cost of sending money from the UK to Somalia increased and, to a lesser degree, from the USA to Somalia in the last quarter
 - Similarly, sending money to several other African countries (e.g. Zambia, Swaziland, Lesotho, Rwanda and DRC,) has also become more expensive in all or in the majority of the sending countries monitored.

CBR and MTO Surveys – consolidated findings

- Withdrawal from CBR and account closure for MTOs are complex and manifold phenomena
- There is a clear connection between the two phenomena
- Not all of these actions should be classified as “de-risking”
- This issue must be dealt with by all actors (public and private) involved in a joint manner

Recommendations

- **Monitor the status of correspondent banking and MTO access at jurisdictional level**
 - Countries need to more systematically gather information on de-risking
- **Ensure the effective implementation of international standards and enhanced understanding of risk**
 - Ensure that AML/CFT legal and regulatory framework is in place
 - Countries need to demonstrate that reforms have been implemented to correct misperceptions
 - Respondent banks and MTOs should improve their AML/CFT internal controls to reduce their risk profile
 - National authorities and financial institutions need to make progress on the overall understanding and architecture for risk perception, allocation, and management

Recommendations

- **Ensure the implementation of a risk-based approach – by supervisors and financial institutions**
 - Supervisors need to take a more direct role in effective risk-based supervision and risk-based enforcement
 - Supervisors should state there won't be a zero tolerance approach for failures to detect money laundering
 - Supervisors should clarify the obligation, if any, on KYCC
- **Increase communication and information sharing**
 - Regulators and supervisors need to increase their communication
 - Need to improve the information position of large banks to lower costs
 - Need for more precise risk-based guidance to banks on the provision of bank accounts and banking services to MTOs and their agents

Thank you

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