

CARIBBEAN FINANCIAL ACTION TASK FORCE



**‘DE-RISKING’ IN THE
CARIBBEAN REGION - A CFATF
PERSPECTIVE**

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Glossary

| Abbreviation | Meaning |
|---------------------|---|
| APG | Asia/Pacific Group on Money Laundering |
| ASBA | Association of Supervisors of Banks of the Americas |
| AML | Anti-Money Laundering |
| BO | Beneficial Owner |
| CAB | Caribbean Association of Banks Inc. |
| CARICOM | Caribbean Community |
| CBs | Correspondent Banks |
| CBDC | Central Bank Digital Currency |
| CBRs | Correspondent Banking Relationships |
| CDB | Caribbean Development Bank |
| CDD | Customer Due Diligence |
| CFATF | Caribbean Financial Action Task Force |
| CFT | Countering the Financing of Terrorism |
| CPF | Counter Proliferation Financing |
| CPMI | Committee on Payments and Market Infrastructure |
| CRTMG | CFATF Risk, Trends and Methods Group |
| DDQ | Due Diligence Questionnaire (Wolfsberg Group Correspondent Banking) |
| EAG | Eurasian Group |
| EBRD | European Bank for Reconstruction and Development |
| ECCB | Eastern Caribbean Central Bank |
| ECCU | Eastern Caribbean Currency Union |
| ESAAMLG | Eastern & Southern Africa Anti-Money Laundering Group |
| FATF | Financial Action Task Force |
| FATF ICRG | FATF International Co-operation Review Group |
| FIs | Financial Institutions |
| FINMA | Swiss Financial Market Supervisory Authority |
| FSB | Financial Stability Board |
| GABAC | Central Africa Anti-Money Laundering Group |
| GAFILAT | Latin America Anti-Money Laundering Group |
| GIABA | Inter-Governmental Action Group Against Money Laundering in West Africa |
| GLIEF | Global Legal Identifier Foundation |
| GPII | Global Partnership for Financial Inclusion |
| GPN | Good Practice Note |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| JNBS | Jamaica National Building Society |
| KYC | Know Your Customer |



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| | |
|----------|--|
| LEI | Legal Entity Identifier |
| MENAFATF | Middle East and North Africa Financial Action Task Force |
| ML | Money Laundering |
| ML/TF | Money Laundering and Terrorist Financing |
| MONEYVAL | Council of Europe Anti-Money Laundering Group |
| MVTS | Money Value Transfer Service |
| NBFI | Non-Banking Financial Institution |
| PSC | Product, Service or Channel |
| RBs | Respondent Banks |
| RBA | Risk-Based Approach |
| RTF | Task Force on Remittances |
| TA | Technical Assistance |
| TF | Terrorist Financing |
| UN-ECLAC | United Nations Economic Commission for Latin America and the Caribbean |
| WB | World Bank |
| WTO | World Trade Organisation |



Abstract

In the global framework for managing and mitigating money laundering and terrorist financing (ML/TF) risks, a risk-based approach (RBA) requires the adjustment of the implementation of measures in proportion to the level of ML/TF risk presented by the specific circumstances – with stronger measures in higher-risk situations. ‘De-risking’ (defined as the termination or restriction of business relationships with entire countries or classes of customers in order to avoid rather than manage the risks (October 2016, FATF Guidance on Correspondent Banking Services)) remains a challenge for the Caribbean region.

Addressing this phenomenon by promoting and ensuring the effective implementation of risk-based measures by Financial Institutions (FIs) and supervisory authorities is a priority of the Financial Action Task Force (FATF) and by extension the Caribbean Financial Action Task Force (CFATF). Given the FATF’s support of a coordinated approach on ‘de-risking’ to identify and address a number of its drivers, in May 2018, the CFATF Plenary approved a stocktaking exercise titled “‘De-risking’ in the Caribbean region” which was conducted amongst the CFATF twenty-five member states.

This paper highlights the results of that stock-taking exercise on ‘De-risking’ carried out by the CFATF during the period June 2018-April 2019. The exercise sought to identify the negative impact of de-risking on the region and was conducted in two segments which involved data requests to Central Banks and private sector FIs in the CFATF member countries. This paper also summarises the current situation and recent activities and events to address the issue by the CFATF and the FATF Global Network.

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Executive Summary

The termination or loss of correspondent banking relationships (CBRs) in the Caribbean became a cause for concern for the financial sector around 2015. In fact, according to a fact-finding ‘de-risking’ World Bank (WB) survey¹, which examined the extent of withdrawal from correspondent banking, its drivers and its implications for financial exclusion/inclusion, the Caribbean was found to be the region most affected by declining CBRs. The CFATF ‘de-risking’ stock-taking exercise was embarked upon with the goal of highlighting the negative impact it was having on the region and to complement the FATF work , engagement and co-ordination on the issue. This initiative entailed gathering information primarily from questionnaires to CFATF Members’ Central Banks and Financial Institutions (FIs) on their experiences with ‘de-risking’ over the period 2015-2018.

The three main objectives of the stock-taking exercise were summarily:

1. To assess the current extent and nature of ‘de-risking’ in the Caribbean region.
2. To determine the impact of ‘de-risking’ in the Caribbean region.
3. To ascertain how countries, through the affected FIs have been able to either address the factors which led to the action or leverage alternative channels for conducting business.

This paper aims to understand the phenomenon of ‘de-risking’ in the Caribbean region, specifically relative to Central Banks and FIs. It is an exploratory analysis of the extent, nature, and ramifications related to ‘de-risking’ specific to Caribbean-based FIs and Central Banks in the CFATF member jurisdictions. It also elucidates the measures employed by these institutions and the support needed to stave off the negative effects of this phenomenon. Importantly, the paper also seeks to minimize the perception that the Region is susceptible to the abuse of their financial systems.

Further to the examination of the above issues, the driving factors of ‘de-risking’ as outlined in this paper can also form the basis of considerations regarding opportunities to strengthen existing systems in regional countries which will result in a reduction or elimination of the impact or opportunities for ‘de-risking’.

¹ World Bank, “‘De-risking’: Fact-finding Summary” Retrieved from:
<http://documents.worldbank.org/curated/en/534371468197058296/pdf/101097-WP-Box393255B-PUBLIC-Fact-Finding-Summary-from-’De-risking’-Surveys-November-2015.pdf>



This paper may also assist jurisdictions in the region to formulate a more comprehensive understanding of the forces that drive ‘de-risking’ within the Caribbean. An account of the reasons for these declines, taking into consideration the observed effects of declining CBRs on financial institutions at the regional level is also outlined in this paper. The industry consensus appears to be that correspondent banks (CBs) have in most instances severed ties with financial institutions.

Some major findings of the surveys (See [Annex 1- CFATF ‘De-risking’ survey \[Central Banks\]](#) and [Annex 2 - CFATF ‘De-risking’ survey \[Financial Institutions.\]](#)) were:

For Central Banks

1. Increased operational costs.
2. Impact on the length of payment chains (for example, to complete a wire transfer).
3. Impact on the volume of payments.
4. Increasing challenges to secure banking services.
5. The termination of one banking account by a US correspondent bank.
6. Increased expectations from overseas respondent banks and regulators.

For Financial Institutions

FIs reported that they experienced restrictions or termination of CBRs within the identified period due to elevated perception of risk and resulting difficulty in providing services/products to clients. The two most prevalent reasons were low volume/small profit margins and the cost of compliance. The products/services affected by ‘de-risking’ included wire transfers which was the category most severely impacted for all the FIs with other cross border transactions also negatively affected. The primary mechanism employed by FIs to mitigate the effects of ‘de-risking’ were to strengthen their AML/CFT compliance programme, followed by addressing the concerns of the CBs, consulting with publications from standard setters such as the FATF and engaging with local and international regulators. Use of advanced technology was also utilized by the FIs to mitigate the effects of ‘de-risking’.

This paper further explores other potential solutions available to both Central Banks and FIs such as regulatory, supervisory, national/regional solutions. Discussions/consultations between respondent banks (RBs) and CBs were explored as viable options for alleviating the ‘de-risking’ phenomenon, as well as the use of a tiered approach or preset conditions as an alternative to termination of CBRs. Improved coordination and comprehension of regulatory requirements and

consensus between member jurisdictions to meet standards set by the FATF were also considered as possible solutions to treating with the occurrence of ‘de-risking’.

Introduction

‘De-Risking’ Defined

According to the FATF, ‘De-risking’ occurs when financial institutions terminate or limit business relationships with jurisdictions or certain types of customers in order to avoid, rather than manage, risks in line with the FATF’s risk-based approach (RBA)².

Similarly, the Association of Supervisors of Banks of the Americas (ASBA) defines ‘de-risking’ as the process where financial institutions leave or significantly reduce certain business lines to avoid *compliance* and *regulatory* risks.³

Compliance Risk is described by ASBA as the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities.⁴ On the other hand, regulatory risk refers to the risk that a change in laws and regulations will materially impact a security, business, sector or market.

A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape.⁵ Common to both ASBA’s and FATF’s definitions for ‘de-risking’ is the avoidance rather than management of risks.

Understanding Correspondent Banking Relationships

The 2016 FATF Guidance on Correspondent Banking Services describes correspondent banking as the provision of banking services by one bank (the “CB”) to another bank (the “RB”). The

² FATF. (October 2016). Guidance Correspondent Banking Services. Retrieved from: <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf>

³ Association of Supervisors of Banks of the Americas (ASBA). “An Overview on De-Risking: Drivers, Effects and Solutions”, 2017 Retrieved from: <http://www.asbasupervision.com/es/bibl/i-publicaciones-asba/i-2-otros-reportes/1598-an-overview-on-de-risking-drivers-effects-and-solutions/file>

⁴ Ibid, pg. 4

⁵ Ibid, pg. 5



Guidance further elaborates that a bank or Money Value Transfer Service (MVTS) provider can provide correspondent banking services through processing and/or executing transactions on behalf of the respondent institution’s customers or the account of the MVTS which is used to process and/or execute the customer transactions.⁶

The Wolfsberg Group of Banks, which developed the “Wolfsberg Principles for Correspondent Banking” as recommended best practice for establishing and maintaining correspondent accounts, defines correspondent banking as “the provision of a current or other liability account, and related services, to another financial institution, including affiliates, used for the execution of third party payments and trade finance, as well as its own cash clearing, liquidity management and short-term borrowing or investment needs in a particular currency”⁷.

In the global financial system, large international banks usually operate as correspondents for many other banks worldwide and provide multiple services, such as cash management, international wire transfers, cheque clearing, payable-through accounts and foreign exchange services. It must be noted that correspondent banking does not include one-off transactions but rather, is characterized by its on-going, repetitive nature. In addition, unless the institution provides payable-through-account services⁸, correspondent institutions generally do not maintain direct business relationships with the customers of the respondent institution.

CBRs are consequently an essential component of the global payment system since they allow FIs in developing countries with small banking sectors to access financial services in jurisdictions without the need for branch presence or bank license⁹. CBRs are also essential for providing a wide array of global financial services, such as cross-border payment services to governments, businesses and individuals that would otherwise be excluded from the global financial system and

⁶ The FATF description of correspondent banking is similar or consistent with that of the Caribbean Policy Research Institute (an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks).

⁷ The Wolfsberg Group, “Wolfsberg Anti-Money Laundering Principles for Correspondent Banking,” Wolfsberg Group. 2014. Retrieved from: <https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsbergstandards/8.%20Wolfsberg-CorrespondentBanking-Principles-2014.pdf>.

⁸ FATF Interpretive Note to Recommendation 13 on Correspondent Banking-The term payable-through accounts refers to correspondent accounts that are used directly by third parties to transact business on their own behalf.

⁹ Commonwealth Secretariat “Disconnecting from Global Finance: The Impact of AML/CFT Regulations in Commonwealth Developing Countries”, 2016.



international trade, therefore they are essential for maintaining an efficient and resilient global financial system as well as to encourage financial inclusion and economic development.

For the Caribbean region, CBRs significantly contribute to the stability of the region’s economic, financial and social ecosystem. Loss of CBRs or the process of ‘de-risking’, is therefore a significant issue for the Caribbean region that is heavily dependent on trade, foreign direct investment and remittances. While trade amounts to one-third of the United States’ gross domestic product (GDP), trade is equivalent to almost half the GDP of developing countries of Latin America and the Caribbean (LAC) and almost 100 percent of the GDP in small Caribbean states.¹⁰ ‘De-risking’ therefore threatens to strangle the supply lines of economic activity with potentially calamitous consequences for economic growth and development in the Caribbean. The following section aims to examine the drivers and consequences of this problem in the Caribbean region.

FATF Framework for Correspondent Banking Services

Correspondent institutions, in assessing the risks of their respondent must ensure that the assessment is sufficiently robust to consider all the relevant risk factors. By doing so, the different levels of inherent risks are clearly understood, and appropriate controls applied to each, ensuring the effective management of these risks¹¹. Thus, a risk-based approach, that is, the adjustment of the implementation of measures in proportion to the level of ML/TF risk presented by the specific circumstances – with stronger measures in higher-risk situations, in line with Recommendation 1 of the FATF International Standards on Combatting Money Laundering and the Financing of Terrorism and Proliferation (The FATF Recommendations) is necessary.

Furthermore, the FATF indicates that the requirements of both FATF Recommendations 10 (Customer Due Diligence (CDD)) and 13 (Correspondent Banking) must be met in all cases before cross-border correspondent banking services may be provided to a respondent institution.¹² Under Recommendation 13, cross-border correspondent banking and other similar relationships require these additional measures: “1) gathering sufficient information about the respondent institution, 2) the nature of the respondent’s business and 3) reputation of the institution. Further, it stipulates that, with respect to payable-through accounts, FIs should be required to satisfy themselves that the

¹⁰ Caribbean Policy Research Institute (CAPRI). (February 2016). The Correspondent Banking problem: Impact of De-Banking Practices on Caribbean Economies. Retrieved from: https://capricaribbean.org/sites/default/files/public/documents/report/the_correspondent_banking_problem.pdf. Page 13.

¹¹ FATF (October 2016). Guidance Correspondent Banking Services. Retrieved from: <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf>

¹² Ibid, pg. 9



respondent bank:”¹³ 1) has performed CDD obligations on its customers that have direct access to the accounts of the correspondent bank; and 2) can provide relevant CDD information upon request to the correspondent bank. CDD measures entail 1) identifying the customer and verifying that customer’s identity; 2) identifying the Beneficial Owner (BO) and verifying that BO’s identity; 3) understanding/obtaining information about the purpose and intended nature of the business relationship and; 4) ensuring that the transactions being conducted are consistent with the institution’s knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

Two other Recommendations, namely 11 and 24 apply to CBRs. Under Recommendation 11, FIs should maintain, for a minimum of five years, all records on transactions/CDD information/measures taken. These include copies of official identification documents, account files and business correspondence. The records/information must be sufficient to permit reconstruction of individual transactions to provide, if necessary, evidence for prosecution of criminal activity. Recommendation 24 states inter alia that there should be adequate, accurate and timely information on the BO and control of legal persons and measures to prevent the misuse of legal persons/arrangements for ML/TF.

Drivers and Consequences of ‘De-Risking’

The process of ‘de-risking’ is driven by a combination of factors, for example and as noted by ASBA, low returns/profitability for correspondent banking services, greater risk management controls, and more stringent and demanding prudential requirements.

Haley (2018) notes that ‘de-risking’ can occur in several ways, though not simultaneously. These three elements are particularly problematic:

- a. The closure of (or refusal to open) bank accounts for certain individuals and firms, and other restrictions on access to financial services;
- b. The withdrawal or restriction of banking services from MVTs and other remittances facilities; and
- c. The severing of CBRs, which entails the loss of access to the international payments clearing system.

The author elaborated on each form of ‘de-risking’ which were identified as constraints of financial integration. In the first form, the undermining of efforts aimed at poverty reduction and

¹³ FATF. FATF Recommendations. Retrieved from: <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>



developmental goals in countries that are dependent on accessing these services; in the second situation - withdrawal of remittance services and the possible systemic effect of less efficient international payment systems¹⁴ in countries where CBRs are severed;¹⁵ and the third form of ‘de-risking’ where CBRs are severed is potentially highly destructive as it entails possible systemic effects within the affected economy.

According to the FATF, the drivers of ‘de-risking’ are complex and include: “profitability; reputational risk; lower risk appetites of banks; regulatory burdens related to the implementation of anti-money laundering and counter-terrorist financing (AML/CFT) requirements, the increasing number of sanctions regimes, and regulatory requirements in the financial sector”¹⁶. Several other reports and studies (Haley 2018; ASBA 2017; Caribbean Policy Research Institute 2017; Williams 2016; Wright et al. 2018) have widely discussed similar drivers for de-risking globally. For the purposes of this paper, the causes of ‘de-risking’ will be classified as follows: *cost drivers, compliance drivers, reputational drivers and information drivers*.

Drivers of ‘De-risking’

The profitability of correspondent banking depends heavily on a high volume of operations. Eroding profit margins and the rise of new, more competitive, technology-based business models have led to smaller profit margins that do not justify the compliance cost to correspondent banks. Relatedly, the costs of complying with AML/CFT legal requirements have grown significantly over the past decade, with regulatory and compliance expenses in the billions of dollars annually.¹⁷ The risk appetites of banks that previously provided correspondent services have declined due to concerns about complying with AML/CFT regulations, failure of which, even if inadvertent, can result in heavy fines and sanctions. To highlight the extent of this concern, the WB 2015 survey

¹⁵ Haley (2018) drawing on Christine Lagarde (2016), Managing Director of the International Monetary Fund (IMF), notes: “Correspondent banking is like the blood that delivers nutrients to different parts of the body. It is core to the business of 3,700 banking groups in 200 countries.”

¹⁶ FATF. “FATF takes action to tackle de-risking”. Retrieved from: <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-action-to-tackle-de-risking.html>

¹⁷ Haley, James. (January 2018). De-Risking of Correspondent Banking Relationships: Threats, Challenges and Opportunities. Wilson Center, Canada Institute. Retrieved from: <https://www.wilsoncenter.org/article/de-risking-correspondent-banking-relationships-threats-challenges-and-opportunities>



reported that 95% of respondents (the highest percentage for any response) indicated that concerns about ML/TF risks were a top cause or driver for CBR withdrawals by large international banks¹⁸.

Compounding this situation is the fact that the standards put forward by the FATF are interpreted and implemented according to the inherent conditions in each country. This has created great levels of uncertainty and discrepancies in cross-jurisdictional regulatory frameworks and expectations in the context of correspondent banking. Adhering to Know Your Customer (KYC) and CDD requirements in line with the RBA to prevent illegal activities such as tax evasion, fraud, ML/TF have also become top priorities for banks. However, the procedures involved weigh heavily on operating costs as they are expensive and time-consuming. An additional complication here is that KYC and CDD procedures are not uniform across institutions or jurisdictions and information sharing is inhibited by privacy and data protection laws.

Reputational risk is the potential that adverse publicity regarding an organisation’s business practices and associations, whether accurate or not, will cause a loss of public confidence in the integrity of the organisation. For banks, reputational risk represents the potential that borrowers, depositors and investors might stop doing business with the bank because of a money laundering scandal¹⁹. Additionally, this risk also poses a significant threat to the institution’s overall portfolio, which can result in market loss, client flight and sanctions. Likewise, correspondent banks can decide to terminate a CBR once concerns, perceived or real, arise about a respondent bank’s AML/CFT framework, client types, products or services.

Furthermore, Haley (2018) noted that the causes and extent of ‘de-risking’, having been assessed by the International Financial Institutions²⁰ including actual or alleged compliance lapses, by even one FI, can have potential spill-over effects for other FIs, particularly in small jurisdictions.

Regarding informational drivers, there is a perception that many developing countries, such as those in the Caribbean region are inherently high-risk, despite best efforts to meet the international

¹⁸ World Bank, “‘De-risking’: Fact-finding Summary” Retrieved from: <http://documents.worldbank.org/curated/en/534371468197058296/pdf/101097-WP-Box393255B-PUBLIC-Fact-Finding-Summary-from-’De-risking’-Surveys-November-2015.pdf>

¹⁹ Association of Certified Anti-Money Laundering Specialists (ACAMS) Study Guide, 2019.

²⁰ The World Bank published two reports: Withdrawal from Correspondent Banking—Where, Why and What to Do About It and Report on the G20 Surveys on De-risking Activities in the Remittance Market, both in November 2015. The IMF published a staff discussion note, “The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action” in June 2016. Meanwhile, the Caribbean Development Bank has focused on the effects of de-risking on Caribbean countries (Boyce and Kendall 2016).



AML/CFT standards set out by the FATF. Therefore, international banks may treat all banks within a jurisdiction as potential source of risk and terminate their relationships with them²¹, without substantiation.

Consequences of ‘De-risking’

Given that the flow of money between markets, businesses and people across borders are essential for security, stability and growth, ‘de-risking’ holds grave implications for small and developing countries. The loss of CBRs imposes a negative impact in terms of development, since it can increase financial exclusion, reduce trade flows, hamper the ability of both domestic citizens and foreigners (e.g., tourists, international students) to obtain payments for services, and compromise the current and future global competitiveness of Caribbean businesses. The withdrawal of CBRs may also contribute to the growth of the informal financial sector and its concomitant illicit activities, as well as encourage a return to cash transactions, thus further exacerbating the perception that the region is high risk due to financial crime.²²

Wright (2016) first identified the country-specific impact of ‘de-risking’ across the Caribbean region. He described the Caribbean experience as wide-ranging, from moderate levels of impact on the domestic financial sector in Barbados and The Bahamas, to economically damaging declines in CBRs experienced in Belize. The Financial Stability Board (FSB) (2017) further supported the work of Wright (2016), highlighting the change in active CBRs, message volumes, and value of transactions during the period 2012 to 2016. The Wright Report²³ asserted that the decline in CBRs regionally has been uneven across Caribbean countries as shown in the table below and that the ownership structure and average size of institutions may have some explanatory power with respect to the severity of CBR losses experienced in various jurisdictions.

²¹ Haley, James. (January 2018). De-Risking of Correspondent Banking Relationships: Threats, Challenges and Opportunities. Wilson Center, Canada Institute. Retrieved from: <https://www.wilsoncenter.org/article/de-risking-correspondent-banking-relationships-threats-challenges-and-opportunities>

²² 2017 High Level Caribbean Forum: Unleashing Growth and Strengthening Resilience, Opening Remarks by Christine Lagarde, IMF Managing Director: <https://www.imf.org/en/News/Articles/2017/11/16/sp-111617-md-opening-remarks-at-the-2017-high-level-caribbean-forum>

²³ Wright, Allan, Kellman, Bradley and Kallicharan, Shaiiede, CBR Withdrawals Understanding the Uneven Occurrence Across the Caribbean, IDB, April 2018 Accessed on March 11, 2019: <https://publications.iadb.org/en/publication/12961/cbr-withdrawals-understanding-uneven-occurrence-across-caribbean>



Table 1 Commercial Bank Characteristics and CBR Loss²⁴

| Country | Number of commercial banks | Asset base of commercial banking sector (expressed in USD) | Estimated average total assets of commercial banks | Proportion of foreign-owned financial institutions | Severity of CBR loss reported |
|----------|----------------------------|--|--|--|-------------------------------|
| Bahamas | 8 | 9.96 billion | 1.2 billion | 75% | 25% - 75% |
| Barbados | 5 | 6.6 billion | 1.3 billion | 100% | < 25% |
| Belize | 5 | 1.5 billion | 300 million | 20% | > 75% |
| Trinidad | 8 | 20.7 billion | 2.6 billion | 75% | 25% - 75% |
| Jamaica | 8 | 4.2 billion | 525 Million | 50% | > 75% |
| ECCU | 20 | 10.4 billion | 520 Million | 63% | 25% – 75% |

Source: Alleyne et al. IMF (2017).

²⁴ Ibid pg. 18



Rationale for Analysis on ‘De-risking’

‘De-risking’ has resulted in at least sixteen banks in the Caribbean losing their CBRs,²⁵ including banks in The Bahamas,²⁶ Barbados, Belize, Jamaica, and countries of the Organisation of Eastern Caribbean States (Leeward Islands: Antigua and Barbuda, St. Kitts and Nevis, Montserrat, Anguilla and the British Virgin Islands; Windward Islands: Dominica, St. Lucia, St. Vincent and the Grenadines, Grenada and Martinique).²⁷ As a result of the human and financial resource challenges faced by regional FIs, such FIs may find it difficult to stay abreast of the latest developments in global AML/CFT standards. The need to provide adequate training, staffing and upgrade operational practices to comply with such standards and further, to adequately communicate compliance improvements may also impact the correspondent-respondent relationships. Given the importance of CBRs in Caribbean countries to enable crucial services like the flow of remittances, access to credit and other forms of financing, and to facilitate business operations for multinational corporations, including foreign direct investment, it was established that ‘de-risking’ can indeed result in detrimental circumstances.

In May 2018, the XLVII CFATF Plenary conveyed approval for a stock-taking exercise on ‘de-risking’ in the Caribbean region to be conducted. The propelling factors to address this exercise were the perceived loss of CBRs that have affected the CFATF members and the barriers that this represents for the continuation of the business of FIs and Non-Banking FIs (NBFIs) alike. According to the WB, a NBFIs is a financial institution that does not have a full banking license and cannot accept deposits from the public²⁸. Addressing ‘de-risking’ in the Region has become especially

²⁵ A number of these financial institutions have recently secured new CBRs. Nonetheless, these new relationships involve a higher cost for correspondent bank transactions.

²⁶ According to the IMF: “[f]inancial institutions in The Bahamas have experienced additional scrutiny of their CBRs, although only in a few cases has this resulted in temporary disruptions of correspondent banking services. Five financial institutions (representing about 19 percent of the assets of the banking system) have recently lost one or more CBRs. The Money or Value Transfer Services sector has also been affected, as well as various business lines, including credit card payments, cash management, investment services, clearing and settlement, international wire transfers and remittances. Although the impact has been limited so far, further pressure on CBRs could have an adverse effect on the financial sector and increase costs of outgoing remittances in the Caribbean. Indeed, The Bahamas is a source of remittances to other countries. In Haiti, for example, the impact of this spillover would be immediate, as about 75 percent of remittances from The Bahamas to Haiti are paid and received in the same day” (2016b: 13).

²⁷ Vasquez, Gustavo M. (December 2017) Assessing the Impact of the ‘De-risking’ on Remittances and Trade Finance in Belize. Retrieved from: <https://publications.iadb.org/handle/11319/8702>

²⁸World Bank. Retrieved from: <https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/nonbank-financial-institution>



urgent since both FIs and NBFIs have already begun to experience its negative effects, such as obstructions to the development of financial systems, compromising of the competitiveness of Caribbean businesses and the increasing number of persons who are excluded from accessing financial services.

Literature Review of ‘De-risking’

Developments at the FATF

The global response to the problem of ‘de-risking’ is coordinated by the FSB through its Correspondent Banking Coordination Group (CBCG), chaired by Switzerland and of which the FATF is a member. This is primarily conducted through the FSB’s Action Plan to assess and address the decline in correspondent banking which has four main elements: i) further examining the dimensions and implications of the issue; ii) clarifying regulatory expectations; iii) domestic capacity-building in jurisdictions that are home to affected respondent banks; and iv) strengthening tools for due diligence by correspondent banks.

The FATF October 2014 Plenary discussed the issue of ‘De-risking’ and has since made the issue a priority Plenary agenda item stating that, “‘De-risking’ should never be an excuse for a bank to avoid implementing a risk-based approach, in line with the FATF standards. This issue was initially identified as being of crucial importance to the FATF for two main reasons:

1. ‘De-risking’ can introduce risk and opacity into the global financial system, as the termination of account relationships has the potential to force entities, and persons into less regulated or unregulated channels. Moving funds through regulated, traceable channels facilitates the implementation of anti-money laundering/countering the financing of terrorism (AML/CFT) measures.
2. It is central to the mandate of the FATF to ensure that the global AML/CFT standard is well understood and accurately implemented, and that countries and their financial institutions are provided with support in designing AML/CFT measures that meet the goal of financial inclusion.”²⁹

²⁹ FATF. “FATF clarifies risk-based approach: case-by-case, not wholesale de-risking”. Retrieved from: <http://www.fatf-gafi.org/publications/fatfgeneral/documents/rba-and-de-risking.html>



In 2015, therefore, in continuing the work on the issue, the FATF commenced the process of gathering preliminary information on the potential drivers of “de-risking”, with input from the private sector in order to determine the causes, scale and impact of “de-risking”³⁰.

As part of its role in the CBCG work, in particular the second workstream on clarifying regulatory expectations, the FATF has provided guidance in the sphere of Correspondent Banking, two of these being the [Guidance on a Risk Based Approach for the MVTS sector](#) (February 2016) and on [Correspondent Banking Relationships](#) (October 2016).

In July 2017, the G20 asked the FSB to coordinate work with the FATF and the Global Partnership for Financial Inclusion (GPII) on identifying and addressing issues relating to remittance providers’ access to banking services. The FSB convened a Task Force on Remittances (RTF) to examine this problem and identify potential solutions and thus the FATF’s recent ‘de-risking’ activity has focused on the remittances sector.

During November-December 2018, the FATF conducted a survey across the global network to analyse measures taken by countries to improve their supervisory practices, domestic co-ordination and co-operation and RBA in the MVTS sector. This was in response to the publication of the FSB [Remittances Task Force’s Stock-take of remittance service providers’ access to banking services](#) in March 2018.

Stock-take of remittance service providers’ access to banking services

The [stock-take](#) referenced above identified a variety of intertwined drivers for the termination of banking services to remittance service providers’, including profitability, the perceived high risk of the remittance sector from an AML/CFT perspective, supervision of remittance service providers that ranges from active and effective to complete absence and, in some jurisdictions, weak compliance with international standards, particularly those relating to AML/CFT.

The report made 19 recommendations in four areas (stated below) to address gaps and remaining barriers to banking services by remittance service providers:

- Promoting dialogue and communication between the banking and remittance sectors;

³⁰FATF. “Drivers for “de-risking” go beyond anti-money laundering / terrorist financing”. Retrieved from: <https://www.fatf-gafi.org/documents/news/derisking-goes-beyond-amlcft.html>



- Improving the implementation of international standards and oversight of the remittance sector;
- The use of innovation in the remittance sector and its possible role in enabling remittance service providers’ greater access to banking services; and
- Technical assistance relating to remittances.

In November 2018, the FSB published two reports on its work to assess and address the decline in correspondent banking relationships: (1) updated data on trends in correspondent banking relationships using data provided by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) as of end-2017 and (2) a progress report on the FSB’s four-point action plan to assess and address the decline in correspondent banking that was delivered to the G20 Summit in November 2018.

The decline in the number of correspondent banking relationships in many countries around the world remains a source of concern for the international community because, in affected jurisdictions, it may impact the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on growth, financial inclusion and international trade. While impacts to the stability and integrity of the global financial system have not been identified, concerns remain at the national and regional level.

“The survey findings, as adopted by the FATF February 2019 Plenary in were shared with the FSB for finalising a consolidated report for the G20 Central Banks Governors/Finance Ministers meeting held in June 2019. The consolidated report presented the results of the monitoring of implementation of the RTF’s recommendations by various bodies (IMF, WB, FATF, FSB and GPMI). It also identified areas where further work may be necessary (e.g. the benefit of national authorities identifying and sharing effective practices on supervision, licensing and enforcement in the remittance sector to improve practices).”³¹

FATF Dialogue with the Private Sector

At the FATF’s session of the Private Sector Consultative Forum (PSCF) in 2017, national supervisors and regulators were encouraged to follow-up on the FATF Guidance³² at a domestic level and clarify how it will be reflected in the national framework and requirements. Also, in 2017,

³¹ FATF. “Update on De-risking”. June 2019.

³² FATF. “Guidance Correspondent Banking Services”. (October 2016). Retrieved from: <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf>



the FATF and the FSB, with the support of the GPMI and the German G20 Presidency, chaired a special session on remittances and ‘de-risking’ with experts from the remittances and banking sectors. The discussions aimed to understand how the MVTS sector is affected by loss of correspondent banking services, and the variety of reasons why this can occur. It also reviewed the responses which have been used to address the causes and maintain access to banking services and remittance services; and sought to identify any remaining gaps or co-ordination needs, at national or international levels that are not already covered by existing initiatives. The FSB has since convened a Task Force on Remittances to examine this problem and a progress report³³ developed and sent to G20 Finance Ministers and Central Bank Governors in March 2018.

The FATF held a session of the PSCF in Vienna, Austria during the period April 23-24, 2018 hosted by the United Nations Office on Drugs and Crime (UNODC). Over 250 representatives from the financial sector and other businesses and professions subject to AML/CFT obligations, civil society, and FATF members and observers participated in the PSCF.

The Forum was an opportunity for the FATF and its members to engage directly with the private sector on AML/CFT issues. It provided a regular platform for the FATF to learn more about the private sector’s views and concerns of AML/CFT-related issues. Addressing ‘de-risking’ is a key FATF priority and was one of the areas discussed during the Forum. Considering continuing concerns about the impact of ‘de-risking’, particularly in the context of the remittance and Non-Profit Organisation (NPO) sectors, participants took careful note of the latest market developments and ongoing initiatives to address ‘de-risking’. Participants also discussed the remaining challenges and the potential next steps, including through coordinated action at the global level, and by national policy makers, supervisors, FIs and industry bodies. The importance of constructive dialogue and engagement among various stakeholders, as well as capacity building was also highlighted in this regard. Participants also shared ideas on ways in which FATF can increase the traction and transmission of its guidance across the global network.

FSB Correspondent banking data report – Update

The most recent CBCG progress report was considered by the FSB Plenary in May 2019 and set out the current situation: SWIFT data as of end-2018 shows continued declines in the number of correspondent banking relationships during 2018. The number of active correspondent banks declined by 3.4% in 2018, which is a slight slowing of the rate of decline compared to 2017.

³³ <http://www.fsb.org/2018/03/fsb-publishes-progress-report-on-addressing-declines-in-correspondent-banking-and-recommendations-on-remittances/>



Increased concentration in 2018 is indicated through a smaller number of correspondents per corridor, a higher number of messages per correspondent, and a smaller number of foreign correspondents per country. There is growing evidence of the concrete implementation of regulatory clarifications on the ground, and initiatives by the industry are gaining traction.

The progress report highlights the further actions taken to implement the **FSB’s four-point action plan**³⁴ on correspondent banking since the FSB’s March 2018 update. These include:

- *Strengthening tools for due diligence by correspondent banks* – The report notes the commitment of large banks to implement the Wolfsberg Group³⁵ **Correspondent Banking Due Diligence Questionnaire (CBDDQ)** by end-2019. The FSB continues to encourage the industry to use the questionnaire to achieve greater efficiencies and improved standardisation in KYC utilities.
- The Wolfsberg Group provided an update on implementation of the new questionnaire in the margins of the FATF PSCF in Vienna on May 6-7, 2019. They noted that between 25 and 45% of correspondent banking renewals made use of the DDQ. As part of its Correspondent Banking Capacity Building programme, on June 27, 2019, the Group launched [Guidance on completing the DDQ](#), and a series of videos, aimed at both users and supervisors. They note that supervisors are an important “push factor” in encouraging use of the DDQ, and they would like to see supervisors make use of the training material and encourage use of the DDQ through their supervision.
- Another important technical step is the recommendation by SWIFT to start the migration to the new ISO 20022 message format in correspondent banking in November 2021, which

³⁴ The FSB launched its [four-point action plan in November 2015](#) to assess and address the decline in correspondent banking. The plan covers:

- Further examining the dimensions and implications of the issue;
- Clarifying regulatory expectations, including guidance from FATF and BCBS;
- Domestic capacity-building in jurisdictions that are home to affected respondent banks; and
- Strengthening tools for due diligence in correspondent banks.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

³⁵ The Wolfsberg Group is an association of 13 global banks which aims to develop frameworks and guidance for the management of financial crime risks.



will support enhanced transparency, including through the use of the Legal Entity Identifier (LEI) for the unambiguous identification of originators and beneficiaries of cross-border payments. The recently launched FSB peer review on LEI implementation will help to identify and address any remaining obstacles to the effective use of the LEI in that field.

- *Clarifying regulatory expectations* – The FATF and the Basel Committee on Banking Supervision (BCBS) have conducted surveys of their memberships to assess the transmission and traction of their guidance on correspondent banking. While there generally has been a high level of dissemination of the guidance, some national authorities may need to do more.
- *Domestic capacity building* – The FSB recently held a workshop, involving both public and private sector participants, on the coordination and prioritisation of capacity development, including to strengthen domestic compliance with AML/CFT Public standards. The FSB is also exploring with the WTO, IFC and multilateral development banks how solutions developed to address the reduction in correspondent banking relationships might also be used in the context of trade finance.

With the international components of the correspondent banking action plan largely in place, the FSB’s focus is monitoring, through its membership, the implementation and developments.

The FATF further provides occasional updates on ‘De Risking’ at its plenaries and at the June 2019 plenary reiterated their commitment to clarifying regulatory expectations as part of the ongoing work of the CBCG through its information paper which also outlined their recent initiatives and that of several other global institutions to address ‘De-risking’. (Refer to [Appendix 3](#) for a list of the FATF work to date on ‘De-risking’).

‘De-risking’ within the Caribbean region

ASBA

ASBA has been instrumental to the dialogue on ‘de-risking’ in the Caribbean region. In March 2016, ASBA conducted a survey in the Caribbean to determine the potential impact of ‘de-risking’ in the jurisdictions of their Associate Members. Sixty-seven (67) % of respondents to the survey identified that a process of de-risking was occurring in their jurisdiction. More specifically that the activity of some financial product, service or channel (PSC) had been reduced due to the compliance/regulatory risk.³⁶ Further, in 2017, ASBA produced a paper³⁷ highlighting the drivers, effects and solutions of ‘de-risking’ which contributed significantly to the discourse on the phenomenon.

CARICOM

CARICOM has embraced the FSB’s four-point plan for addressing ‘de-risking’. During the 27th Inter-Sessional meeting of the Conference of the Heads of Government of the Caribbean Community (CARICOM) held on February 16th–17th, 2016 in Belize, heads of government appointed a high-level advocacy group, led by the Prime Minister of Antigua and Barbuda, the Honourable Gaston Browne, to represent the interests of the region in addressing this issue. The Caribbean Development Bank (CDB) and the Jamaica National Building Society (JNBS) offered to work alongside CARICOM on advocacy efforts and finding regional solutions.

In July 2019 at the 40th meeting of the Caribbean Community (CARICOM), Antigua and Barbuda’s Prime Minister called for the establishment of a Caribbean bank that would allow the region to counteract the position of international banks regarding correspondent banking. PM Browne is of the view that the region has been making “slow progress” in dealing with the matter. The vision of a Caribbean Bank is one owned by various indigenous banks in the Caribbean and one that could have branches in the USA, UK and Canada diaspora in order to provide services to the Caribbean people living in those regions.

³⁶ ASBA. (March 2016). Impact of Compliance/Regulatory Risk in Financial Activity (“De-risking”) in the Americas Association of Supervisors of Banks of the Americas. Retrieved from: <http://www.asbaweb.org/E-News/enews-44/Docs/banksup/02banksup.pdf>

³⁷ Association of Supervisors of Banks of the Americas (ASBA). (2017) An Overview on De-Risking: Drivers, Effects and Solutions. Retrieved from: <http://www.asbasupervision.com/es/bibl/i-publicaciones-asba/i-2-otros-reportes/1598-an-overview-on-de-risking-drivers-effects-and-solutions/file>



Caribbean Development Bank

The CDB noted the occurrence of the ‘de-risking phenomenon in 2016 and has been involved in various initiatives in the region. Several approaches to solutions and mitigants have been included in the CDB’s discussion paper³⁸ on the issue. The paper elaborated on linking potential solutions to specific causes and drivers. Most notably, this approach proposed that as a complement to the coordinated regional high-level political diplomatic approach, a simplified, yet tailored and robust “horses for courses” approach may also be pursued by stakeholders to identify their most relevant, practical, workable and preferred solutions by matching them to relevant causes and drivers. In other words, it assumes that the possibility exists to target specific countries and institutions with tailored solutions which will make it easier for stakeholders to refine their plans and implement solutions on a case-by-case (country-by-country and/or institution-by-institution) basis

Caribbean Association of Banks (CAB)

In seeking to address the significant issue of the loss of CBRs currently threatening the regions’ financial services sector, CAB convened a CEOs’ Forum in Miami on April 16th, 2016 to explore potential solutions and develop a set of actions in response to this threat. The CAB further conducted a survey³⁹ on August 25th, 2016 to better understand how banks in the region have been affected by the withdrawal of CBRs and has undertaken outreach to correspondent banks and other stakeholders to raise awareness of these issues. The results of that survey showed that banks in 12 countries in the region had experienced the loss of correspondent banking services, including The Bahamas, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago, and countries in the Eastern Caribbean Currency Union. The IMF also noted that the withdrawal of these services posed a "clear and present danger"⁴⁰ to the Caribbean in the form of financial sector exclusion and financial sector stability.

³⁸ CDB. (2016). Discussion Paper- Strategic Solutions to ‘de-risking’ and the decline of Correspondent Banking relationships in the Caribbean. Retrieved from: https://www.caribank.org/sites/default/files/publication-resources/DiscussionPaper_Solutions_De-RiskingCBRs-5.16print.pdf

³⁹ Caribbean Association of Banks. (October 2016), Summary of findings- Correspondent Banking survey. Retrieved from: http://cab-inc.com/wp-content/uploads/2016/07/The_correspondent_banking_survey_Report_Revised_Ver_2.docx

⁴⁰ The Economist. “De-risking poses a challenge in the Caribbean.” December 2017. Retrieved from: [http://country.eiu.com/article.aspx?articleid=1746207558&Country=Virgin%20Islands%20\(British\)&top8](http://country.eiu.com/article.aspx?articleid=1746207558&Country=Virgin%20Islands%20(British)&top8)



Eastern Caribbean Central Bank (ECCB)

At the national level, progress is being made to improve the supervisory and regulatory frameworks, including in AML/CFT and in facilitating the international exchange of information. Recognising that the drivers of the withdrawal of CBRs are very similar, particularly on issues related to economies of scale, countries are exploring regional approaches. For instance, in order to strengthen AML/CFT frameworks, members of the ECCB have decided to consolidate their national AML/CFT supervision into one regional operation, under the responsibility of the ECCB.

The view of the ECCB is that financial technology must be leveraged to aid in addressing the issue of ‘de-risking’; transform the payment methods for goods and services; and harden financial systems against crime; while elevating the region’s financial growth.

As a result, the ECCB and the Barbados-based fintech company, Bitt Inc. signed a contract to conduct a blockchain-issued Central Bank Digital Currency (CBDC) pilot within the Eastern Caribbean Currency Union (ECCU). The ECCB CBDC pilot will involve a securely minted and issued digital version of the EC dollar (DXCD). The digital EC dollar will be distributed and used by licensed FIs and Non-Bank FIs in the ECCU. The DXCD will be used for financial transactions between consumers and merchants, including peer-to-peer transactions, all using smart devices.

The digital EC Dollar is the world’s first digital legal tender currency to be issued by a central bank on blockchain with an eventual phased public rollout. The pilot is part of the ECCB’s Strategic Plan 2017-2021 which aims to help reduce cash usage within the ECCU by 50 per cent, promote greater financial sector stability, and expedite the growth and development of member countries. The pilot commenced in March 2019 and will be executed in two phases: development and testing, for approximately twelve months, followed by rollout and implementation in pilot countries for another six months. As part of the pilot implementation, the ECCB will ramp up its sensitisation and education initiatives to facilitate active public engagement throughout all member countries. It is hoped that the risk profile of the ECCU will be improved and the trend of ‘de-risking’ by the region’s correspondent banking partners mitigated. The pilot will also focus on developing a secure, resilient digital payment and settlement platform with embedded regional and global compliance; and the issuance of a digital EC currency which will operate alongside physical EC currency.



Methodology of the CFATF Stock-Taking exercise

Data Sources and Collection

The CFATF ‘de-risking’ stock-taking exercise initiative entailed gathering information from primary and secondary sources on the subject matter. In that regard, two questionnaires were drafted by the CFATF Secretariat; one aimed at Central Banks and the other at FIs, with the purpose of collecting responses from the regulatory framework perspective as well as from the operational perspective of FIs. Information was obtained from both primary and secondary sources, with the primary sources being the questionnaire respondents and the secondary sources being official government statistics, publications and media reports.

The draft questionnaires were circulated for review by the CFATF Risk, Trends and Methods Group (CRTMG) members to ensure appropriate drafting to capture the information needed to understand the ‘de-risking’ challenges. Nine members of the CRTMG volunteered to examine the completed questionnaires and determine timelines for the analysis of the particularized information. Once the review was concluded, the questionnaires were circulated to the Central Banks and FIs of the CFATF Membership for completion in July 2018. Responses were received from only nine Central Banks which prompted the respective questionnaire to be re-circulated in September 2018. In total, by the CFATF’s XLVIII November 2018 plenary, 22 Central Banks submitted responses to the surveys.

With respect to the FIs, 90 institutions initially responded and in January 2019, the questionnaire for FIs was re-circulated to those jurisdictions from whom no responses were received in 2018. This resulted in an additional 137 responses being received for a total of 227 FIs. The second phase of the initiative included the additional responses received as well as a desk-based review of relevant existing data, papers, reports, articles and other materials on ‘de-risking’.

Description of Questionnaires and Data Analysis

The questionnaire for the Central Banks consisted of twelve questions, divided into groups which are contact information, position and jurisdiction; the perception of ‘de-risking’ as a threat; the challenges posed by ‘de-risking’; the effects and measures to mitigate its effects; the range of sanctions for non-compliance with CDD measures; and participants’ feedback on how the CFATF can help to alleviate ‘de-risking’.

The questionnaire for the FIs comprised eleven questions, divided into groups which are title of the respondent; the type of institution; the perception of ‘de-risking’ as a threat; the impact, if any, of



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terminated CBRs and location of the CB; the products/services/customers most affected by ‘de-risking’; the actions taken to lessen its effect; the number of CBRs terminated in the past three years (2015-2018); and participants’ feedback on how the CFATF can help to alleviate ‘de-risking’ in the region.

The responses from the Central Banks and FIs were entered on separate Excel spreadsheets and pivot tables were used for analysis. Since the analyses were primarily descriptive, charts and tables were generated for most of the items from both questionnaires. (See [Annex 4](#)).



Discussion of Findings

Central Banks

Most of the Central Banks that were surveyed stated that ‘de-risking’ was **simultaneously perceived as a risk** to their respective jurisdictions as well as **presenting the same level of threat to operational viability** as three years prior (2015) to the dissemination of the survey. This finding indicates that from a regulatory perspective, ‘de-risking’ is still perceived as a serious challenge in the region. **Increased operational costs and impact on the length of payment chains** (for example, to complete a wire transfer) were cited by Central Banks to be two of the most serious impediments to operations for FIs operating within jurisdictions throughout the region. Other effects included **the impact of the value and volume of payments**. The CAPRI Report (2016) citing the WB⁴¹ noted that although Latin America and the Caribbean are disproportionately affected by ‘de-risking’, there is an absence of data, which results in heavy reliance on inferences and anecdotal information. However, the survey has found the main effect seen from the standpoint of the supervisory authorities in the Caribbean is **cost. Longer payment chains may also drive up the cost of doing certain transactions**. On the other hand, the **negative impact on the volume and value of payments could translate to lower profit margins**. Combined, ‘de-risking’ practices can potentially contribute to declines in the banking sector.

In terms of the measures taken to *reduce the effects of ‘de-risking’*, the actions taken by the Central Banks suggest **significant attempts to balance developing stronger AML/CFT legislative and regulatory frameworks, regional capacity building, improved supervisory roles, strengthening CBR mechanisms and data analysis on ‘de-risking’**. Given the complexity of the ‘de-risking’ challenge, *adopting a multi-pronged approach* can offer practical solutions to the problem. As supervisory authorities, Central Banks must pursue the appropriate actions in relation to the risks identified while encouraging growth of national and regional banking infrastructure. The findings also indicate that Central Banks utilize various forms of sanctions for non-compliance with CDD measures, ranging from administrative to criminal penalties. One of the actions taken by Central Banks is **implementing more effective administrative penalty guidelines**, which should enable them, as supervisory authorities, to impose these levels of sanctions. Additionally, **amending legislation** should also work to strengthen criminal sanctions to address any deficiencies that are not in line with the FATF Recommendations. Central Banks sought considerable support

⁴¹ The World Bank “Withdrawal of Correspondent Banking: Where, Why and What to Do about It”, 2015.



to alleviate the threat of ‘de-risking’ in the region from the CFATF. **Lobbying with international bodies and major FIs on AML/CFT risk management regimes** and for lost CBR relationships, **issuance of best practice guidance, policy harmonization and co-ordination**, and ensuring **adequate resources dedicated towards MER and FUR** are among the recommendations made by the CFATF members’ Central Banks. These strongly indicate that regulatory authorities in the Caribbean seek to develop more robust and streamlined policies to reduce the threat the ‘de-risking’ poses to the region.

Financial Institutions

Multiple types of FIs were represented in the responses, including Trust and Company Service Providers, Private Offshore Banks, Commercial Banks and Insurance Companies. Unlike the Central Banks, FIs were almost equally split in their perception of ‘de-risking’ as a current threat to operational viability. Interestingly, only 30% of the FIs surveyed stated that experienced restricted/terminated CBR over the last three years. More specifically, fifty-five of these institutions reported the most severe form of ‘de-risking’, termination of CBR during the above period. Although these figures show that ‘de-risking’ among FIs is occurring among the minority, its effects on financial services and products are deleterious. The effects reported in this survey were similar to those found in previous analyses on ‘de-risking’; difficulty providing services/products to clients, elevated risk, increased administrative cost and difficulty finding replacement CBRs.

These consequences can exacerbate the problem in the Caribbean since they can drive FIs into less regulated systems, leading to the growth of underground flows and shadow banking. Wire transfers, cross-border transactions and other services such as foreign exchange, cash management and trade finance were most affected by restricted/terminated CBRs. These types of services facilitate economic growth and development in Caribbean economies. Declines can result in financial exclusion for groups and individuals who may resort to unregulated or illegal channels to access these services as well as stymied economic development.

Low profit margins and the cost of compliance were the main reasons for the loss of CBRs. However, other notable reasons such as **issues with AML/CFT policies, perceived risk of the jurisdiction and risk mitigation** can collectively be categorized as risk. Similarly, in the survey conducted by the WB in 2015, **risk and profitability** were the two main themes based on stakeholders’ perspectives. More than three-quarters of the correspondent banks are located in North America and Europe and given that large international banks are greatly concerned their profits in relation to the high cost of AML/CFT compliance and sanctions, it is not surprising that



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CBRs were severed mainly for those reasons. The efforts by the FIs to mitigate the effects of ‘de-risking’ sought, to some extent, to address the reasons for restriction/termination of CBRs. These were **strengthening their AML/CFT framework, dialogue with correspondent banks** about concerns, **consulting AML/CFT standards** and **meeting with international regulators**. Like the Central Banks, FIs have requested extensive support from the CFATF to reduce the effects of ‘de-risking’ in the region. The most required means were assistance to **implement better AML/CFT frameworks, increase awareness to adhere to FATF Standards, provision of guidance notes** and **greater coordination with correspondent banks**. As with the regulatory authorities, the FIs aim to **foster a stronger AML/CFT framework region wide**.



Conclusion and Recommendations

According to the findings of the CFATF stock-taking exercise, due to the complex nature of ‘de-risking’ a multipronged and tailored approach is required to mitigate the negative effects on Central Banks and FIs. From the operational perspective of the FIs, ‘de-risking’ has affected their institutions to a lesser extent. There was minimal restriction/termination of CBRs although the perception of ‘de-risking’ threat was almost equal on both sides. Despite the relatively small numbers of FIs reporting on the effects of ‘de-risking’ and loss of CBRs, the scope of these were crucial enough to warrant them to implement comprehensive measures to mitigate ‘de-risking’ as well as elicit substantial assistance from the CFATF.

Relative to the impact of ‘de-risking’ in the Caribbean region, based on the above analysis, the main effects were centred around increased operational and administrative costs for operations, longer banking processes, difficulty providing services/products to clients and elevated perception of risk. On the supervisory level, Central Banks have made efforts to streamline supervisory and regulatory frameworks with data analysis and technical improvements directly designed to address the challenges that ‘de-risking’ has precipitated in the region. Additionally, Central Banks can impose various sanctions for non-compliance with CDD measures as well as establishing an administrative monetary penalty regime. On the operational level of the FIs, jurisdictions also structured their responses to ‘de-risking’ by strengthening their AML/CFT framework, engaging in dialogue about improving CBRs and increased focus on AML/CFT standards setters and international regulators. The CFATF was called upon by both entities to render greater assistance towards improving their respective efforts to treat with ‘de-risking’ in the Caribbean.

Based on the findings from the survey, de-risking is a multi-dimensional challenge that consists of operational, financial and supervisory/regulatory issues that are detrimental to both Central Banks and FIs. The survey has also illustrated the measures adopted on the supervisory and institutional levels to address de-risking, with an underlying aim to mitigate the negative effects and high costs. The measures given in the survey represent important progress within the jurisdictions towards mitigating the effects of de-risking. However, the findings have highlighted specific gaps in need of more targeted measures. It is clear that ‘de-risking’ is a shared problem and therefore, requires a shared responsibility to develop sustainable solutions among stakeholders. Therefore, the following recommendations seek to focus on the specific and mutual effects of de-risking in the Caribbean region.



National/Regional Solutions

The small size of the financial markets in the Caribbean region as well as the number of individual FIs that utilize CBRs can exacerbate ‘de-risking’. These banking systems may not be seen as sufficiently cost effective to maintain profitable CBRs and may also fall below minimum volume of operations accepted by international CBs. Furthermore, the perception of the AML/CFT/CFP frameworks in the Caribbean also contributes to an overall view that Caribbean jurisdictions are inherently high risk. National and regional coordination and cooperation efforts should aim to utilize approaches that can respond to these vulnerabilities.

One method suggested by Haley (2018) is the formation of regional banking market, which would expand the size of individual country markets by ameliorating neighbouring countries. Using the example of the Eastern Caribbean Currency Union (ECCU), consolidation of banks achieved several goals simultaneously; increasing operating scales to make technological investments profitable, maintaining a competitive edge, strengthening of banking markets and mitigating the effects of de-risking. One of the main reasons given for terminating CBRs is low volume and low profits margins. By consolidating banking systems on the regional level, banking markets can reach an optimum standard of operations through higher volumes of transactions and generate greater profits as larger and more diversified FIs. The process would call for high levels of coordination and established policies, but it can effectively to avert the two aforementioned reasons for ‘de-risking’.

Two potential solutions for low profitability and low transaction volume is consolidation of CBRs through specific CBs and nesting. FIs within individual jurisdictions rely on the services of separate CBs which are at risk of becoming less lucrative over time. By concentrating transactions on the national level into fewer CBs, there would be a larger scale of transactions and increased profits with the CBRs. With detailed coordination, consolidation on the regional scale can also occur with even greater benefits for the jurisdictions and the institutions involved. ‘Nesting’ refers to an instance where a respondent bank provides correspondent banking services to other FIs and processes these transactions through its own correspondent account (ACAMS 2016). This practice is another means by which small scale national transactions can be consolidated. However, the CB must implement specific enhanced due diligence safeguards on the RBs AML/CFT program to mitigate the risk of processing transactions for customers outside of their institution.



Centralized regional/national databases are another potential solution that can be employed to reduce the impact of ‘de-risking’ in the region. Respondent banks can greatly reduce the cost and inefficiency of duplicate information resulting from individual customers with accounts across several institutions. The composite information can be placed in a timely manner on the national/regional databases as a single profile where it can be accessed by correspondent banks. Such databases would also be able to provide up-to-date and more comprehensive information required for transactions, especially those that are cross-border. This would also facilitate conducting ongoing due diligence and risk assessments mandated by the authorized CBs and other institutions. Centralized databases equip countries that are encountering challenges either opening and/or maintaining CBRs with a practical method to mitigate ML/TF/PF risks associated with cash flow across borders in particular, thus minimize the perception of being high risk. Additionally, they can reduce the cost of additional due diligence mechanisms as well as help regional FIs to maintain the products/services frequently lost due to de-risking.

Technological Solutions

Arguably, the use of regulated Fintech is one of the most widely used measures employed in the financial sector. One key example of this technology is SWIFT that is used for international money transfers. Fintech has been beneficial in improving the efficiency of the traditional banking sector, thus reducing costs of processes and transactions. One of the primary ways Fintech has become integrated into the financial system is through the automation of AML/CFT structures. In order to mitigate the evolving ML/TF/PF risks they are exposed to, FIs must have robust automated transaction monitoring systems that analyse transactions and patterns in real time. This would include identification of unusual transactions for potential STRs, management of clients with different risk profiles and assisting in conducting due diligence obligations. The advantage here in the context of the findings from the survey is that having such automated gatekeepers decreases the perception of risk associated with RBs as well as the cost of compliance. FIs in the survey reported using advanced technology as a countermeasure for ‘de-risking’.

Legal Entity Identifiers (LEI) represents another beneficial application of technology within the financial industry. A LEI is a unique alphanumeric code consisting of twenty (20) characters that is used to identify legally distinct entities that engage in financial transactions. According to ASBA (2017), each entity can be traced, and it is a tool for effectively identifying and measuring risk through access to credible information on the entities in the transaction. Moreover, in the context of wire transfers, the source and route of funds can be more precisely ascertained, and originator and beneficiary information can be integrated. This is especially important as the findings of the



survey showed that wire transfer and cross border transactions were most seriously impacted by ‘de-risking’. LEIs can significantly address the deficiencies associated with these types of transactions which can bolster the confidence of CBs in regional FIs. An additional advantage is that LEIs the comparison of various legal entities to determine relationships and ownership structures, thus facilitating more comprehensive risk assessments. Ideally, this can also work to diminish the cost of compliance borne by FIs, which was a consequence of ‘de-risking’ from the survey. FIs in the Caribbean region are mainly respondent institutions which face considerable obstacles in information collection, storage and sharing with CBs. One solution to this issue is the use of KYC utilities, which are electronic repositories where RBs store and update their customer information. Information dissemination is controlled by the RBs and only made available to authorized CBs. Through improved accuracy and efficiency, the cost of compliance is reduced and FIs can meet compliance obligations with minimum difficulty.

Finally, one emerging Fintech that seeks to mitigate the effects of ‘de-risking’ is Blockchain technology. The high cost of implementing effective ML/TF/PF measures in FIs can be addressed by facilitating the creation of permanent, highly traceable records. Additionally, the usage of net payment oriented blockchain can lessen the dependence on CBRs for money transfers. However, this technology is in the early stages of development and requires tight monitoring and regulation. Despite these, it is a potentially innovative and dynamic solution to the effects of ‘de-risking’ such as the loss of MSBs/MVTS and cross border transactions.

Regulatory, Supervisory and Other Solutions

From a regulatory perspective, one of the forthcoming tools used for finding tailored solutions for the financial industry is a ‘sandbox’. A regulatory sandbox is a live, yet controlled environment in which financial services providers can test new products, services or business models that do not fit into the existing legal framework, with a high degree of involvement by authorities without the regulatory consequences of engaging in such⁴². Given the unique nature of the ‘de-risking’ phenomenon in the Caribbean region, it would be useful for jurisdictions to launch these collaborative spaces for examining customized policies, guidelines and best practices that could strengthen their ML/TF/PF frameworks to mitigate the effects of ‘de-risking’. Barbados has utilised this facility with the company Bitt Inc. exiting the sandbox in July 2019. The results of the

⁴² Fintech Regulatory Aspects Working Group (REG WG). Key Aspects around Financial Technologies and Regulation Policy report. May 2019. Retrieved from: <https://www.cemla.org/fintech/docs/2019-06-KeyAspectsAroundFinancialTechandRegulation.pdf>



sandbox exercise can be subsequently shared with other institutions and jurisdictions. This initiative can be immensely beneficial to Central Banks in their continuous efforts to practically comply with FATF and other international standards.

Finally, there are three (3) further noteworthy recommendations. The first is proactive discussions on CBRs between RBs and CBs. Termination of CBRs cannot be executed with limited or no justification by CBs. On the other hand, RBs have a clear responsibility to manage the challenges are negatively affecting the relationship. Proactive discussions establish policies and regulations for operations, timelines, amendments, sanctions, restrictions and termination. Secondly, CBs can utilize a tiered approach or system of actions and/or preset conditions which are preferable to termination as the only course of action. A trial or grace period can be extended to RBs as part of those conditions or tier of action, thus allowing the institution sufficient time to deal with the relevant deficiencies. This approach can work to lessen the number of terminations experienced by FIs in the Caribbean. Closer monitoring of CBRs as well as the drivers and effects of ‘de-risking’ by Central Banks is essential. Data collection, collation and analysis both on the national and regional levels form the basis for monitoring trends and patters to inform targeted actions. Thirdly, increased coordination and standardization of regulatory requirements and actions according to shared risks and contexts is another important measure. Consensus between jurisdictions and collective efforts can help the region as a whole to meet standards set by FATF and understand the expectations of regulators better.

Curbing the effects of ‘de-risking’ will clearly require resolute action and continuous dialogue among all stakeholders. Regulators, global and local banks, private sector bodies, as well as the global standard setting bodies such as the FATF, all have a part to play. The CFATF will continue to monitor and work with the FATF to enhance a better understanding on the scale and nature of ‘De-risking’ concerns among our impacted Member jurisdictions, and work to facilitate practical solutions based on recommendations from this report.

CFATF Secretariat

November 1, 2019



Annex 1

CFATF 'De-risking' Survey [Central Banks]

The Caribbean Financial Action Task Force (CFATF), through the work of the CFATF Risk, Trends and Methods Group (CRTMG) received approval from the CFATF XLVII Plenary in May 2018 to conduct a stock-taking exercise to assess the nature, extent, drivers, and impact of 'de-risking' on CFATF Members and to ascertain how member countries, through the affected central banks have been able to either address the factors which led to the action or leverage alternative channels for conducting business.

Your participation in this information gathering exercise will be compiled with a view towards publishing a report on the 'de-risking' experiences and challenges faced by the members of the CFATF to successfully understand the regional 'de-risking' challenges and to contribute to the work of the FATF on this issue.

The survey will take approximately 5-10 minutes to complete. Individual responses provided by each CFATF member will not be shared with any third parties and is considered highly confidential.

If you require further clarification, please do not hesitate to contact the Secretariat at the following email addresses:

cfatf@cfatf.org

risha.pragg-jaggernauth@cfatf.org

* Required

Unique Identifier *

1. Contact Person: *

2. Position/Title *

3. Telephone Number *

4. Email address: *

5. Country *

6. Has the threat of 'de-risking' increased in your jurisdiction?

Yes

No

7. Is 'de-risking' as much of a threat to operational viability in your jurisdiction today as it was three (3) years ago? *

Yes

No



8. In instances where challenges to 'de-risking' have been experienced, what, if any, are/were the direct effects to FIIs in your jurisdiction? Select all that may apply. *

- Impact on the volume of payments
- Impact on the value of payments
- Impact on the length of payment chains; for example, to complete a wire transfer
- Increased costs
- Other:

9. What specific actions have been taken to mitigate the effects of 'de-risking' (if any)? *

- Participation in international forums
- Dialogue with the banking sector
- Issuance of guidelines
- Amendments to legislation (please specify)
- Closer supervision of FATF Recommendation 13 requirements on correspondent banking
- Other:

10. Please provide further details with respect to the specific actions taken to address the effects of 'de-risking' at question 9 above.

11. What is the range of sanctions available for non-compliance with customer due diligence measures? *

12. How can the CFATF Secretariat assist with efforts to alleviate the threat of 'de-risking' in the region?



Annex 2

CFATF ‘De-risking’ Survey [FIs]

The Caribbean Financial Action Task Force (CFATF), through the work of the CFATF Risk, Trends and Methods Group (CRTMG) received approval from the CFATF XLVII Plenary in May 2018 to conduct a stock-taking exercise to assess the nature, extent, drivers, and impact of 'de-risking' on CFATF Members and to ascertain how member countries, through the affected FIs have been able to either address the factors which led to the action or leverage alternative channels for conducting business.

Your participation in this information gathering exercise will be compiled with a view towards publishing a report on the ‘de-risking’ experiences and challenges faced by the members of the CFATF to successfully understand the regional ‘de-risking’ challenges and to contribute to the work of the FATF on this issue.

The procedure involves filling an online survey that will take approximately 5-10 minutes to complete. The information cannot be traced back to individual FIs, as we are not collecting any information that would lead to any one financial institution.

If you require any clarification, please do not hesitate to contact the Secretariat at the following email addresses:

cfatf@cfatf.org

risha.pragg-jaggernaut@cfatf.org

* Required

Unique Identifier: *

1. Position/Title*

2. To which classification does your institution belong? Please check all that apply. *

- Commercial Bank
- Broker/Dealer
- Money Service Business
- Private Offshore Bank
- Trust and/or Company Service Provider
- Other:

3. Is 'de-risking' as much of a threat to your operational viability today as it was three (3) years ago? *

- Yes
- No

4. Have your operations been impacted by 'de-risking' in the form of terminated/restricted Correspondent Banking Relationships ('CBRs') in the past three (3) years? *



- Yes
- No

5. If you answered yes to the above question, please provide additional information (i.e. How has 'de-risking' affected operational viability?)

6. What reasons were provided by the correspondent bank for the termination/restriction? (if any)? Please check all that apply. *

- Issues with AML/CFT policies and procedures at your financial institution
- Low volume/small profit margins
- Cost of compliance (i.e. with the local laws and regulations of the correspondent bank and staff Costs)
- Product or service no longer offered by correspondent bank
- Perceived high risk of the jurisdiction as a result of strategic deficiencies in the AML/CFT regime (at the national level).
- Risk mitigation, based on actions of other FIs
- Fear of regulatory sanctions against senior management/FIs
- Lower risk appetite
- Enhanced ongoing monitoring/review of existing records
- The business line (i.e. the provision of correspondent banking services) is no longer aligned with the correspondent bank's business strategy
- No reason given
- Not Applicable
- Other:

7. In instances where correspondent banking relationships have been terminated, where were these institutions (i.e. The Correspondent Bank(s)) domiciled? *

- North America
- Europe
- Asia
- Not Applicable
- Other:

8. What types of products/services/customers have been most affected by 'de-risking'? Please check all that apply. *

- Cross Border Transactions
- Wire Transfers
- Credit Card Processing



- Cash Management Services
- Check Clearing
- Loans/Letters of Credit
- Conduct of foreign currency current account transactions
- Foreign Exchange Services
- Clearing and settlement
- Trade Finance
- Investment Services
- Mobile banking
- Importers
- Money transfer operators/other remittance companies
- Retail customers
- International Business Companies
- E-gaming/Gambling
- Not applicable
- Other:

9. What specific actions have been taken to mitigate the effects of ‘de-risking’ (if any)? Please check all that apply. *

- Strengthening the institution's AML/CFT Compliance Program
- Addressing concerns raised by the correspondent bank
- Consulting with publications produced by standard setters (e.g. FATF, The Wolfsberg Group) to ensure that policies and procedures are up to standard.
- Using advanced technology (i.e. FinTech) to assist with Customer Due Diligence efforts (e.g. KYC Utilities)
- Engaging the assistance (services) of local and international regulators (consultants)
- Other:

10. How many CBRs have been terminated in the past (3) years?

- 1-3
- 4-6
- 7-10
- 10+
- None

11. How can the CFATF Secretariat assist with efforts to alleviate the threat of 'de-risking' in the region? *



Annex 3

Completed FATF work relevant to ‘De-Risking’

| |
|--|
| <p>Standard setting</p> <ul style="list-style-type: none"> • FATF Recommendation 8 and its Interpretive Note are revised to better reflect how to implement measures to protect non-profit organisations from terrorist abuse, in line with the proper implementation of the risk-based approach (June 2016). • The FATF Recommendations are revised to establish the risk-based approach as a fundamental requirement of the FATF standards (February 2012). |
| <p>Guidance and best practices to guide both financial institutions and regulators on how to properly implement the risk-based approach, in line with the Revised FATF Recommendations</p> <ul style="list-style-type: none"> • Guidance on Correspondent Banking Services to address ‘De-risking’ by clarifying the application of the FATF standards (October 2016) • Guidance for a Risk-Based Approach for Money or Value Transfer Services specifically addresses the access of MVTs to banking services (see Section IV) (February 2016) • Guidance on the Risk-Based Approach for Effective Supervision and Enforcement by AML/CFT Supervisors of the Financial Sector and Law Enforcement (October 2015) • Best Practices Paper on Combating the Abuse of Non-Profit Organisations (Recommendation 8) (Section V on Access of NPOs to Financial Services specifically addresses issues relevant to the potential ‘De-risking’ of non-profit organisations) (June 2015) • Guidance for a Risk-Based Approach to Virtual Currencies (June 2015) • Guidance on Transparency and Beneficial Ownership (October 2014) • Risk-Based Approach Guidance for the Banking Sector (October 2014) • Guidance for a Risk-Based Approach to Prepaid Cards, Mobile Payments and Internet-Based Payment Services (June 2013) • National Money Laundering and Terrorist Financing Risk Assessment (March 2013) • Revised Guidance on AML/CFT and Financial Inclusion (February 2013) |
| <p>Plenary discussion papers on ‘De-risking’</p> <ul style="list-style-type: none"> • Update on ‘De-risking’: FATF/PLEN(2019)36 (May 2019) • Update on ‘De-risking’: FATF/PLEN(2018)14 (February 2018) • Update on ‘De-risking’: FATF/PLEN(2017)53 (October 2017) • Update on ‘De-risking’: FATF/PLEN(2017)27 (June 2017) • Update on ‘De-risking’: FATF/PLEN(2017)8 (February 2017) • Update on ‘De-risking’: FATF/PLEN(2016)51 (October 2016) • Update on ‘De-risking’: FATF/PLEN(2016)36 (June 2016) • Update on ‘De-risking’: FATF/PLEN(2015)49 (October 2015) • ‘De-risking’: Definition and Drivers: FATF/PDG (2015)8 (June 2015) • President’s Paper on an FATF Strategic Approach to ‘De-risking’: FATF/PLEN(2015)22 (June 2015) • PDG Co-Chair Reports: FATF/PLEN/RD(2015)6 (Feb.2015), FATF/PLEN/RD(2015)15 (June 2015); FATF/PLEN/RD(2016)5/FINAL (Feb.2016) |



- Country presentations by Mexico, Germany, United Kingdom and United States on ‘De-risking’: FATF/PLEN/M(2014)5 (October 2014)

Public statements to clarify the FATF position on ‘De-risking’

- [FATF takes action to tackle ‘De-risking’](#) (23 October 2015)
- [Drivers for “‘De-risking’” go beyond AML/CFT](#) (26 June 2015)
- [FATF clarifies risk-based approach: case-by-case, not wholesale ‘De-risking’](#) (23 October 2014)



Annex 4
Results of the Analysis

Central Banks

Questions #1 to 4. These questions were related to Contact Person, Position or Title, Telephone Number and Email address.

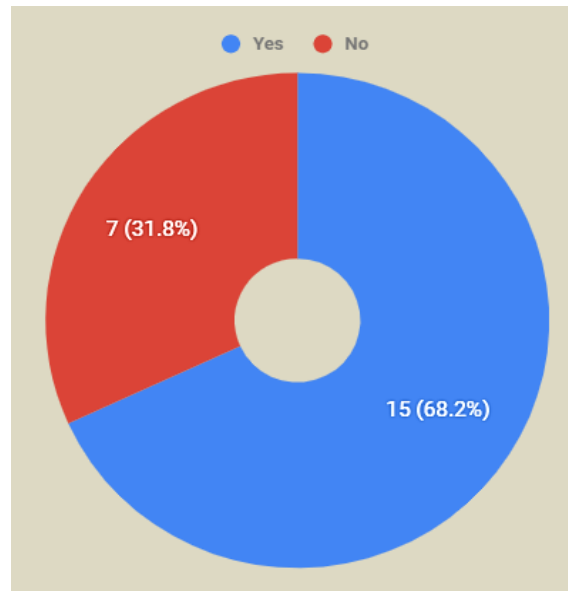
Question #5. *Central Bank Participants in the Stock-taking Exercise*

Regarding the Central Banks, twenty-two (22) out of the CFATF’s twenty- five member jurisdictions participated in the stock-taking exercise.

Question #6 *‘De-risking’ as an Increasing Threat to the Jurisdiction*

Fifteen (15) Central Banks representing around sixty-eight percent (68.2%) of the respondents, indicated that ‘de-risking’ is an increasing threat for their jurisdictions. On the other hand, seven (7) institutions, representing roughly thirty-two percent (31.8%) did not perceive ‘de-risking’ as an increasing threat.

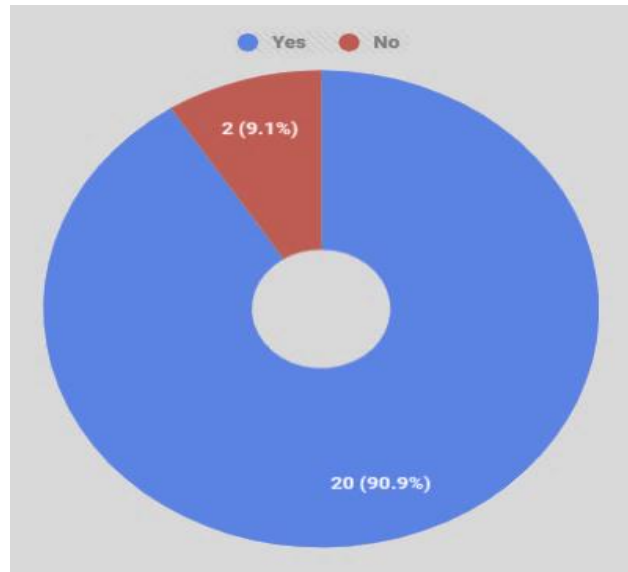
Figure 2 ‘De-Risking’ as a Threat to Jurisdictions



Question #7. *‘De-Risking’ as a Threat to Operational Viability*

Twenty (20) Central Banks representing more than the ninety percent (91.1%) of the institutions, perceive 'de-risking' as a threat to operational viability in their jurisdictions today as it was three (3) years ago. 'De-risking' has not been an increasing threat during the last three (3) years for only two (2) central banks, which represents nine (9.1%) percent of those polled.

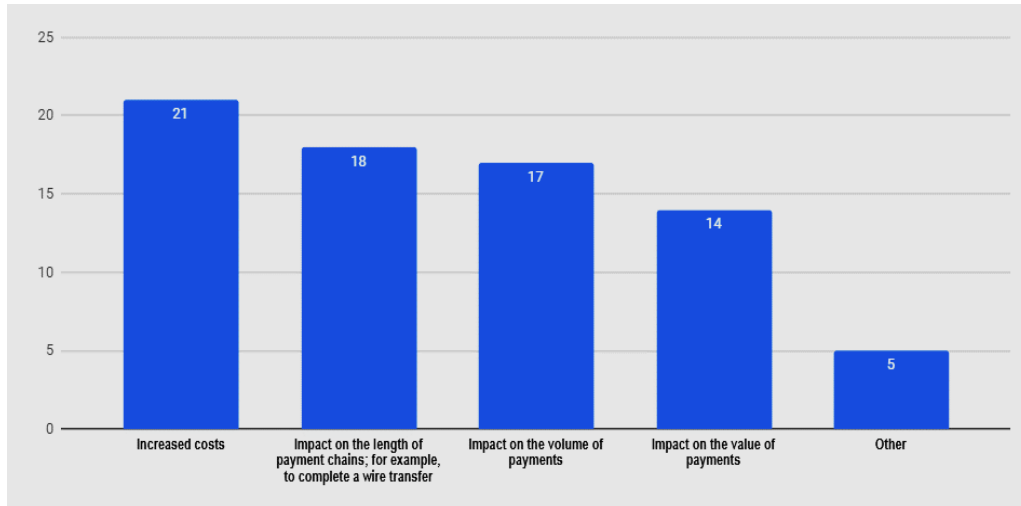
Figure 3 'De-Risking' as a Threat to Jurisdictions



Question #8 *Effects of 'De-Risking' on FIs*

From the Central Banks' perspective, it has been noted that FIs have faced direct effects emerging from 'de-risking' practices. These effects mainly include increases in operational costs, impact on the length of payment chains (for example, to complete a wire transfer) and impact on the volume of payments. Other effects identified were the increasing challenges to secure banking services, the termination of one banking account by a US correspondent bank and the increased of expectations from overseas respondent banks and regulators, which triggers enhanced local requirements and less access to banking services.

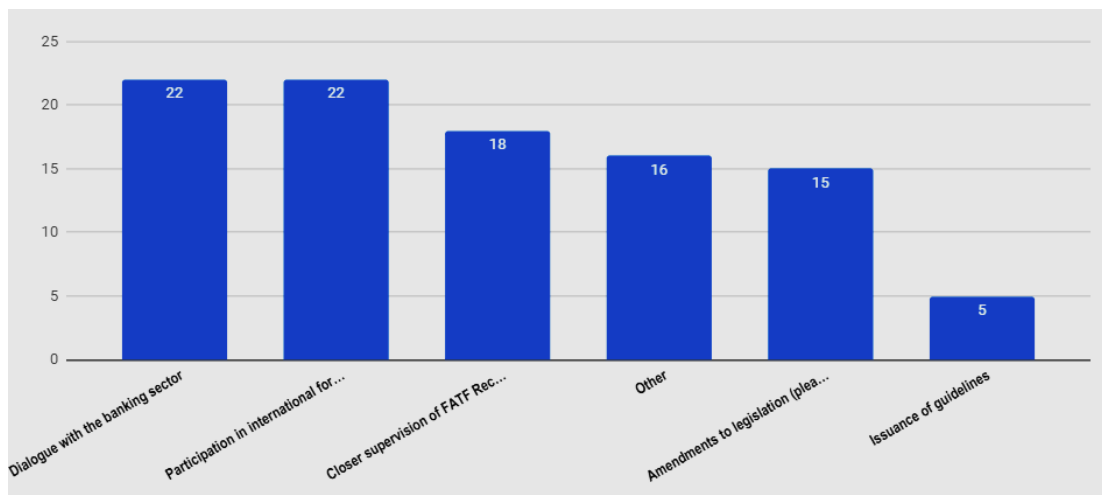
Figure 4 Effects of ‘De-Risking’ on FIs



Question #9 *Measures to Mitigate the Effects of ‘De-Risking’*

On the question of the specific actions that have been taken to mitigate the effects of ‘de-risking’, all of the Central Banks indicated that they have dialogued with the banking sector and have participated in international forums where the topic has been discussed. Most of the Central Banks have also conducted closer supervision in relation to FATF Recommendation 13 related to correspondent banking. The Central Banks also indicated that their respective countries have amended domestic legislation. The issuance of guidelines is one of the actions taken by five (5) Central Banks participating in the survey. Sixteen (16) Central Banks have carried out activities which include meetings with potential correspondent banks, reaching out to correspondent banks domiciled in Europe with the purpose of establishing correspondent banking relationships as well as dialogue with financial services sector on CDD and BO issues.

Figure 5 Measures to Mitigate the Effects of ‘De-Risking’



Question #10 *Actions taken by Central Banks*

The Central Banks were requested to provide further details with respect to the specific actions taken to address the effects of 'de-risking' in question nine (9) above. The specific actions taken by Central Banks include:

1. Approaching FIs in Europe to establish corresponding relationship and requesting high-risk banks to implement a contingency plan. For the specific case of remittances and payment of money, establishing controls as limits in the operations of the departments where, after performing an analysis, there is a greater risk of money laundering;
2. Amending legislation (to address weaknesses in AML/CFT supervision);
3. Agreed on a strategic action which are aimed at:
 - i. Intensifying data collection and analysis on ‘de-risking’;
 - ii. Developing guidance on the management of correspondent banking relationships;
 - iii. Building more regional capacity in anti-money laundering and combating the financing of terrorism (AML/CFT) effectiveness;
 - iv. Identifying cost effective approaches to strengthening AML/CFT compliance systems in regional respondent banks;
 - v. Accelerating the shift away from reliance on cash-based domestic transactions (and on correspondent bank-dependent international payments settlements); and

- vi. Strengthening regional mechanisms to remain influentially engaged in international regulatory initiatives affecting the correspondent banking landscape.
4. Improving supervision by implementing an administrative monetary penalty regime and strengthening the guidelines for administrative penalties; revising AML/CFT guidelines to expand the banks obligation concerning correspondence banking that are aligned to the FATF requirements and adopting a continuous AML/CFT supervision similar to prudential supervision.
5. Intensifying data collection from banks to facilitate analysis on ‘de-risking’;
6. Identification of cost-effective approaches to strengthening AML/CFT compliance systems in regional respondent banks;
7. Ensuring all national banks register on the SWIFT (KYC) Registry Portal;
8. Signing MOUs which set the basis for facilitating/ sharing information with national regulators and conducting joint AML/CFT assessments.

Question #11 *Sanctions for Non-Compliance with Customer Due Diligence Measures*

With respect to the range of sanctions available for non-compliance with customer due diligence measures, the Central Banks indicated that these varied across the region and included both administrative and criminal sanctions. Administrative penalties ranged from the issuance of warnings to fines and included the revocation of license / registration. Criminal penalties ranged from fines to summary conviction. One Central Bank did not have the authority to impose sanctions because that authority is reposed in other national agencies.

Question #12 *Assistance from CFATF*

Central Banks stated that the CFATF Secretariat can assist with efforts to alleviate the threat of 'de-risking' in the region, the following responses were compiled:

1. International lobbying effort and accreditation of AML/CFT risk management regimes;
2. Facilitate document/information sharing amongst members;
3. Facilitate the representation of members in the context of raising awareness of ‘de-risking’ and compliance with international standards;



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4. Issuing good/bad practices (e.g. guidance) regarding ‘de-risking’ specifically for the Caribbean region
5. With the assistance of the WB and IMF, the CFATF to lobby with the major FIs in the United States of America to re-establish banking relations in the Caribbean since our trading partners are located in the USA;
6. Ensuring regional compliance with FATF Standards through proper training and effective mutual evaluation;
7. Ensuring adequate resources are placed on MERs and FURs to ensure country compliance;
8. Working with FATF members to ensure fair and equitable treatment of all members in the global network and that being a member of CFATF is equivalent to being a member of FATF;
9. Continue to advocate and lobby the FATF on behalf of the region regarding the unintended consequences of being named on the FATF Compliance Document;
10. Ensure that CFATF members understand the intention of the (CFATF) Compliance Document and the expectations regarding action to be taken;
11. CFATF needs to ensure that jurisdictions understand that the effectiveness of their AML/CFT regimes goes beyond the passage of a legislative/institutional framework;
12. Multi-lateral regional collaboration is critical for successful implementation of any actions taken to address the ‘de-risking’ issue;
13. Mechanisms be pursued to ensure policy harmonization and co-ordination amongst the various work-streams and agencies already established to address this ‘de-risking’ issue;
14. Advocating for a consistent global approach towards countries placed on the FATF list of Jurisdictions with Strategic Deficiencies would be very helpful;
15. Engage the ECCB to determine the minimum requirements for the maintenance of a relationship and develop/issue a regional standard/guidance for all banks to comply with;
16. Engage the correspondent banks on ‘de-risking’ initiatives; and engage licensed FIs on areas of cooperation to enhance the overall AML/CFT framework in the jurisdiction;
17. Continue issuing guidance on recommendations on correspondent banking services;
18. Share frequent updates on developments regionally related to ‘de-risking’;



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19. Facilitate bi-lateral and multi-lateral meetings between respondent and correspondent banks;
20. Continue advocacy on the need for international partners to conduct risk-based decisions;
21. Continue advocacy for harmonization of standards across the region;
22. The CFATF, going forward, should take into consideration the specifics of the Caribbean region as well as the countries therein as it strives to foster the implementation of FATF recommendations and adapt those, by way of guidance, procedures and mechanisms, to the reality of the region;
23. Conduct round tables and initiatives with the countries of the regions and countries involved in the ‘de-risking’ to establish clear rules and means to reduce the risk of both Correspondent Banks and their clients. This would prevent the creation of other means that can be used in the laundering of money and assets, terrorist financing and financing the proliferation of weapons of mass destruction.



Financial Institutions (FIs)

Question #1 Number of FIs Responding to the ‘De-Risking’ Survey

Overall, two hundred and twenty-seven (227) FIs provided responses to the ‘De-Risking’ Survey, an additional one hundred and thirty-seven (137) responses were received in the second stage of the project.

Question #2 Types of FIs

A little over a quarter (26.4%) of the total number of FIs that participated in the survey are trust and company services providers (60). Commercial banks (54) and private offshore banks (44) contributed 26.4% and 23.8% respectively. It should be noted here that there were seven commercial banks that offered other services such as broker/dealer and retail services. These were counted separately from those classified strictly as commercial banks. Insurance companies (21), Money Service Businesses (13) and Credit Unions (10) were prominently represented in the respondents, accounting for between 4% and 9% of the all the respondent FIs. Other FIs that participated in the survey were broker/dealers (3), bank and trusts (2), non-banking FIs (2) and asset manager, banking and custody services, financial holding company, fund administrator, international banking business, investment/commercial bank and trustee and mutual funds operator. Two institutions were not classified.



Figure 7 Types of FIs in the ‘De-Risking’ Survey

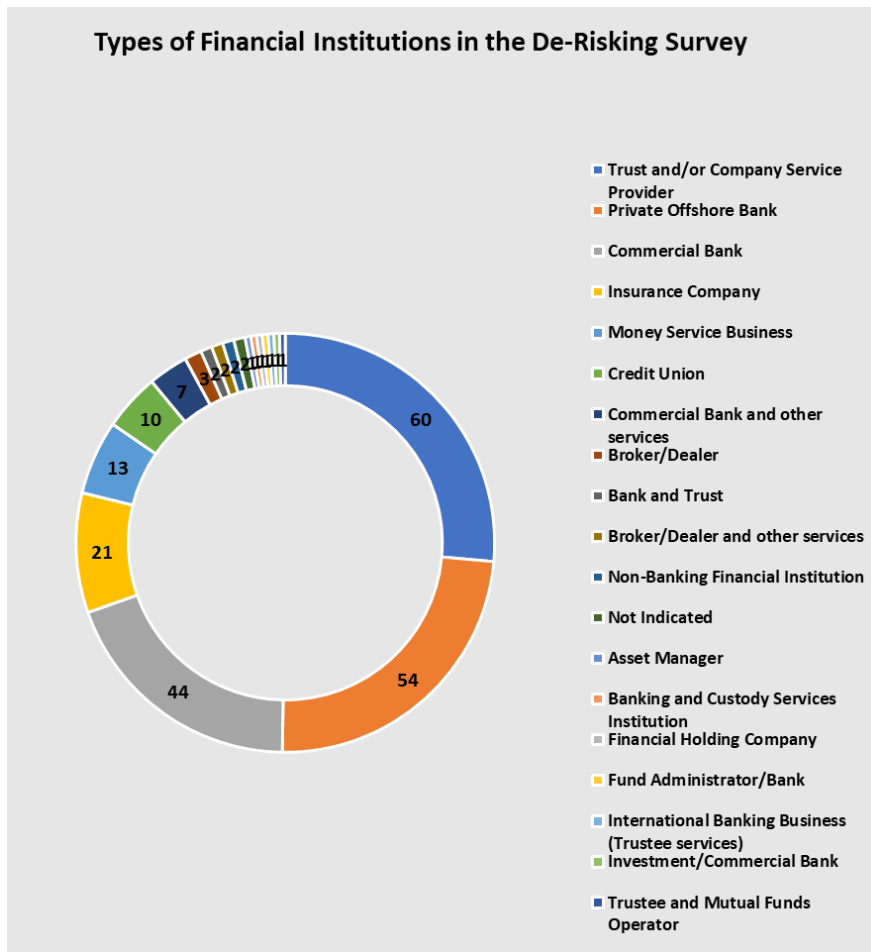


Table 2 Percentage Contribution of FIs by Type

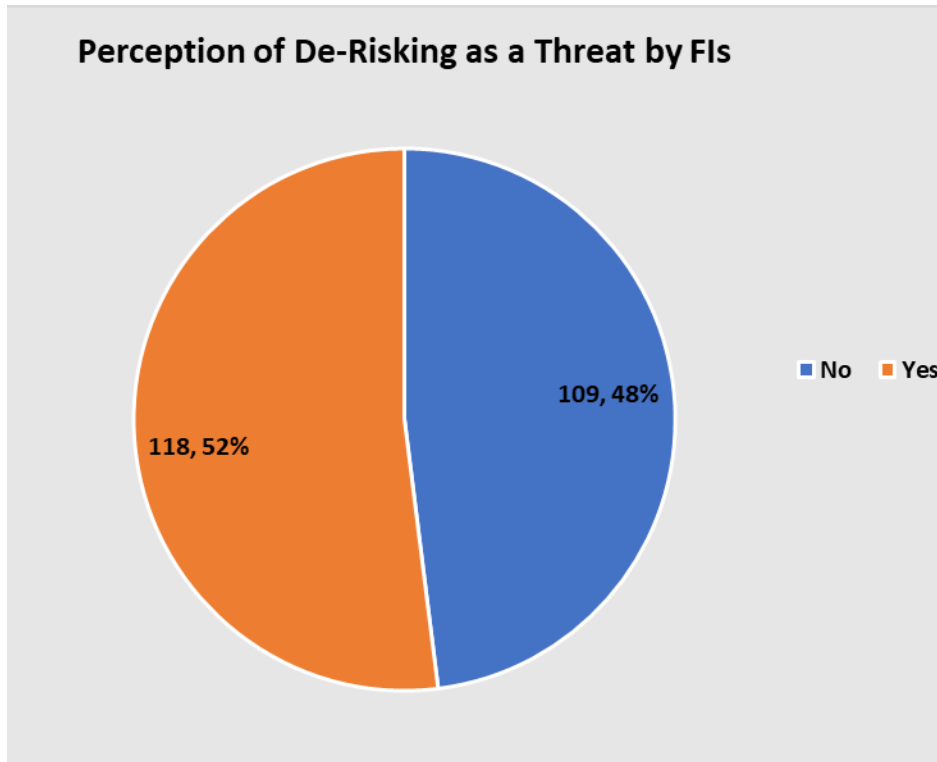
| Type of Institution | Number | % of total Number of Institutions |
|---|------------|-----------------------------------|
| Trust and/or Company Service Provider | 60 | 26.4 |
| Private Offshore Bank | 54 | 23.8 |
| Commercial Bank | 44 | 19.4 |
| Insurance Company | 21 | 9.3 |
| Money Service Business | 13 | 5.7 |
| Credit Union | 10 | 4.4 |
| Commercial Bank and other services | 7 | 3.1 |
| Broker/Dealer | 3 | 1.3 |
| Bank and Trust | 2 | 0.9 |
| Broker/Dealer and other services | 2 | 0.9 |
| Non-Banking Financial Institution | 2 | 0.9 |
| Not Indicated | 2 | 0.9 |
| Asset Manager | 1 | 0.4 |
| Banking and Custody Services Institution | 1 | 0.4 |
| Financial Holding Company | 1 | 0.4 |
| Fund Administrator/Bank | 1 | 0.4 |
| International Banking Business (Trustee services) | 1 | 0.4 |
| Investment/Commercial Bank | 1 | 0.4 |
| Trustee and Mutual Funds Operator | 1 | 0.4 |
| Grand Total | 227 | 100 |

Question #3 ‘De-risking’ as a Threat to Operational Viability

FIs were asked if ‘de-risking’ was perceived to be as much of a threat to their operational viability presently as it was three (3) years ago. The responses were almost equally split, with 118 respondents stating yes and 109 stating no. However, slightly more FIs (52%) thought that ‘de-risking’ presented the same level of threat to their operational viability now as it did three years ago. Forty-one (41) or almost forty-six percent (45.6%) of the respondent entities, indicated that ‘de-risking’ is not a threat in the present as it was in the past three years.



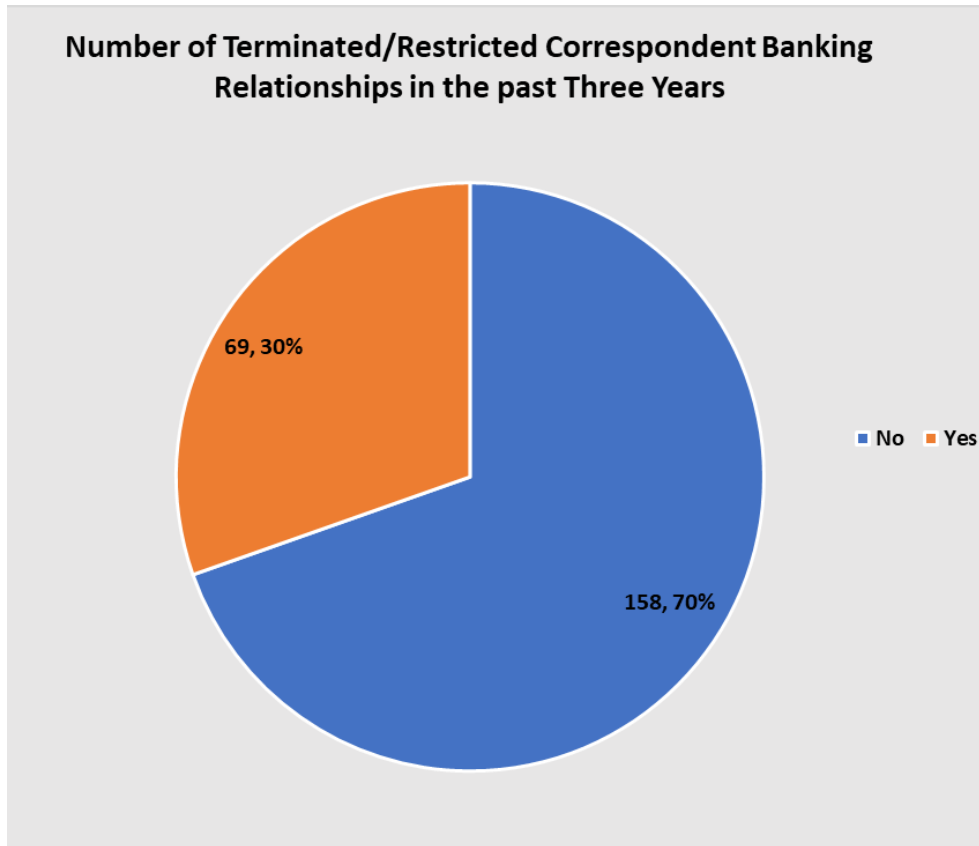
Figure 8 Perception of ‘De-Risking’ as a Threat to Operational Viability by FIs



Question #4 Termination/Restriction of Correspondent banking Relationships

In the past three (3) years, seven out of every ten FIs (158) stated that their operations were not impacted by ‘de-risking’ in the form of termination/restriction of Correspondent Banking Relationships. On the other hand, sixty-nine (69) FIs confirmed the opposite, that their operations were not affected by ‘de-risking’ in the context of termination/restriction of Correspondent Banking Relationships. This accounted for only thirty percent (30%) of all the respondent FIs in the survey.

Figure 9 Number of Terminated/Restricted Correspondent Banking Relationships in the Past Three Years



Question #5 *Effects of ‘De-Risking’ on Operational Viability*

A total of sixty-nine (69) FIs stated that they experienced restrictions or terminations of their CBRs. These FIs were asked to elaborate on the specific effect/s stemming from the restriction/termination. Seven FIs did not offer details on the effects. Three-quarters or fifty-two of the institutions gave one reason. Out of these, roughly one-third reported that elevated risk (17) and difficulty providing services/products to clients (17) were the main negative effects respectively. Of the nine that provided two reasons, the most prominent were also elevated risk (4) and difficulty providing services/products to clients (4). Only one FI experienced three negative effects of restriction/termination of CBRs. The data further revealed that private offshore banks felt the brunt of these effects as twenty-seven (27) of these institutions experienced one of more of the adverse consequences of termination/restriction to their CBRs. This accounted for forty-four percent (44%) of all the FIs affected by restriction/termination of CBRs.

Figure 10 Effects of the Restriction/Termination of Correspondent Banking Relationships (One Effect)

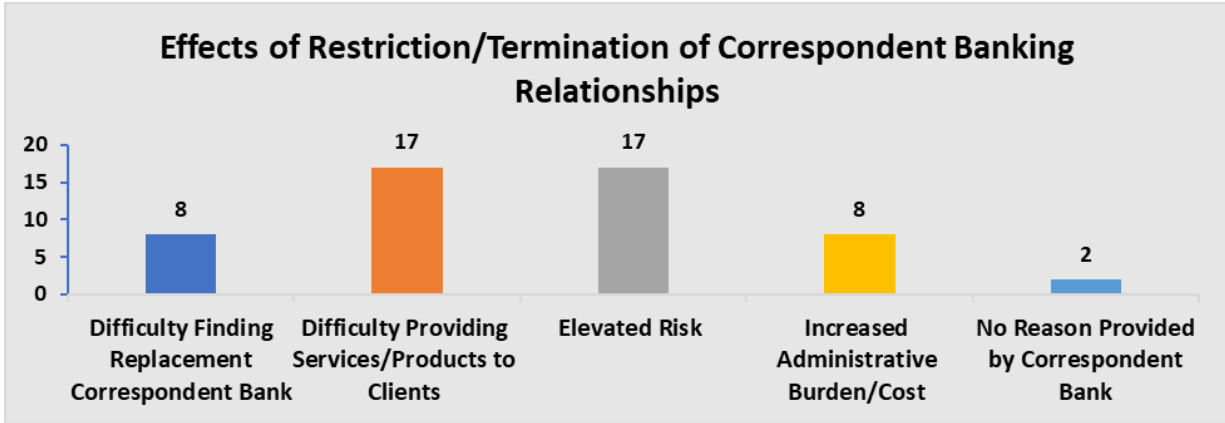
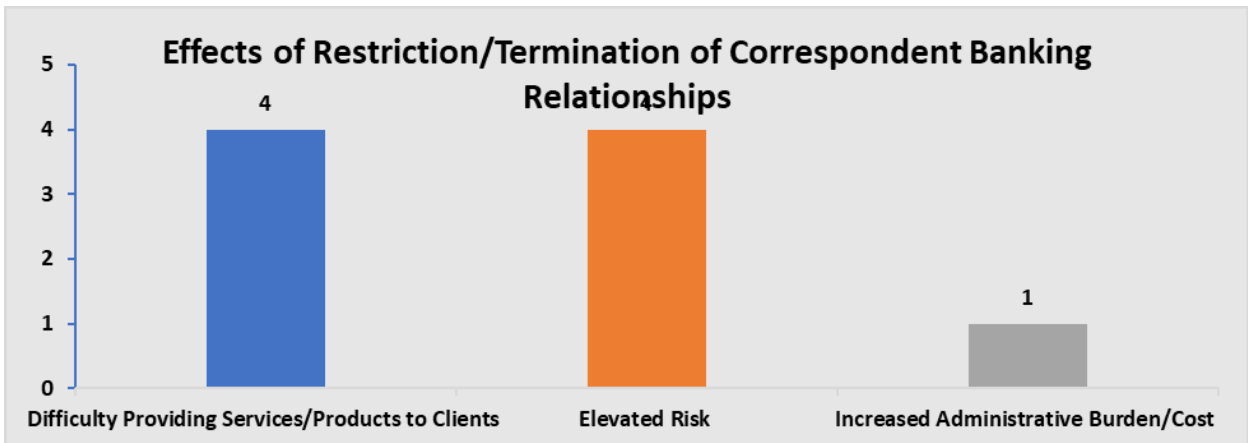


Figure 11 Effects of the Restriction/Termination of Correspondent Banking Relationships (Two Effects)

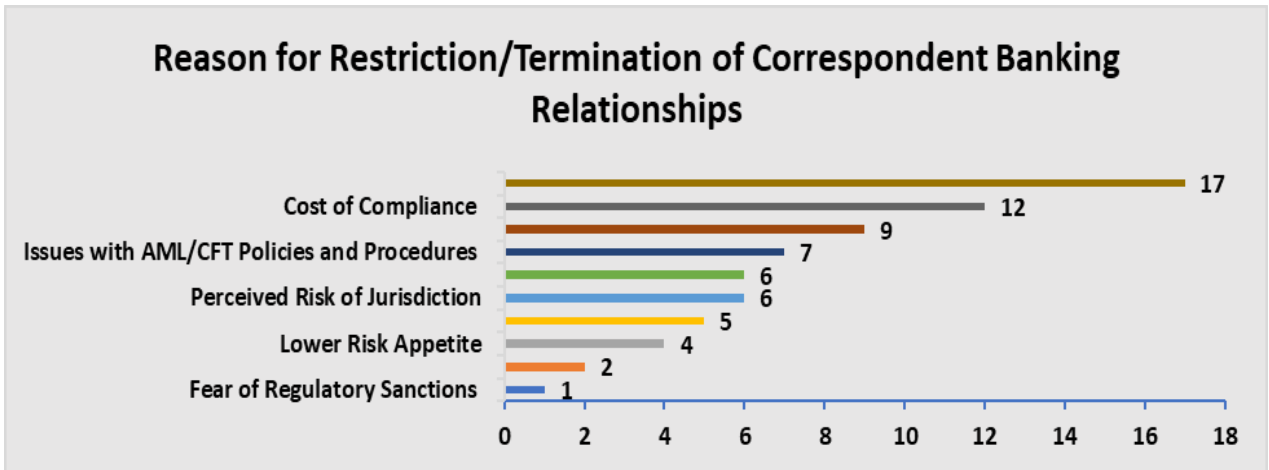


Question #6 *Reasons for Restriction/Termination of Correspondent*

A further examination of the FIs that experienced restriction/termination of their correspondent banking relationships revealed several reasons why this occurred. The two most prevalent reasons were low volume/small profit margins (17) and the cost of compliance (12). These accounted for twenty-five percent (25%) and seventeen percent (17%) respectively. For nine of the FIs, no reasons were given for the restriction/termination. Other reasons included issues with AML/CFT policies and procedures (6), perceived risk of jurisdiction (6), risk mitigation (5) and lower risk appetite (4).



Figure 12 Reasons for Restriction/Termination of Correspondent banking Relationships

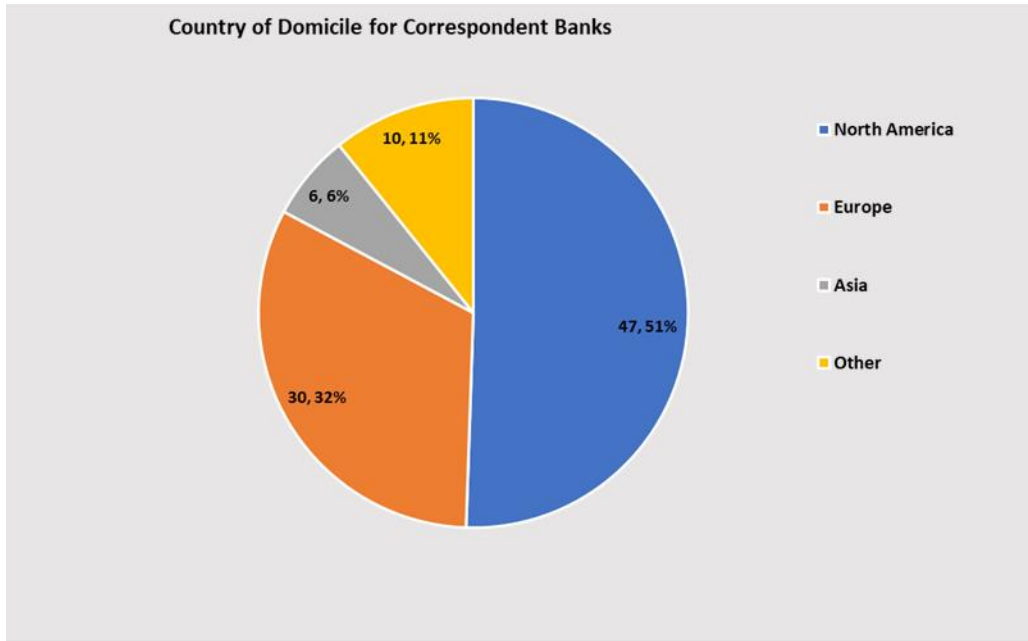


Question #7 Country of Domicile for Correspondent Accounts

In the cases where the country of domicile for the correspondent banks was identified, half (47) were in North America while approximately one-third (30) originated in Europe. Six FIs had Correspondent Banks domiciled in Asia. Other countries of domicile for Correspondent Banks indicated by the FIs included Antigua and Barbuda, Nigeria, the Falklands and Puerto Rico.



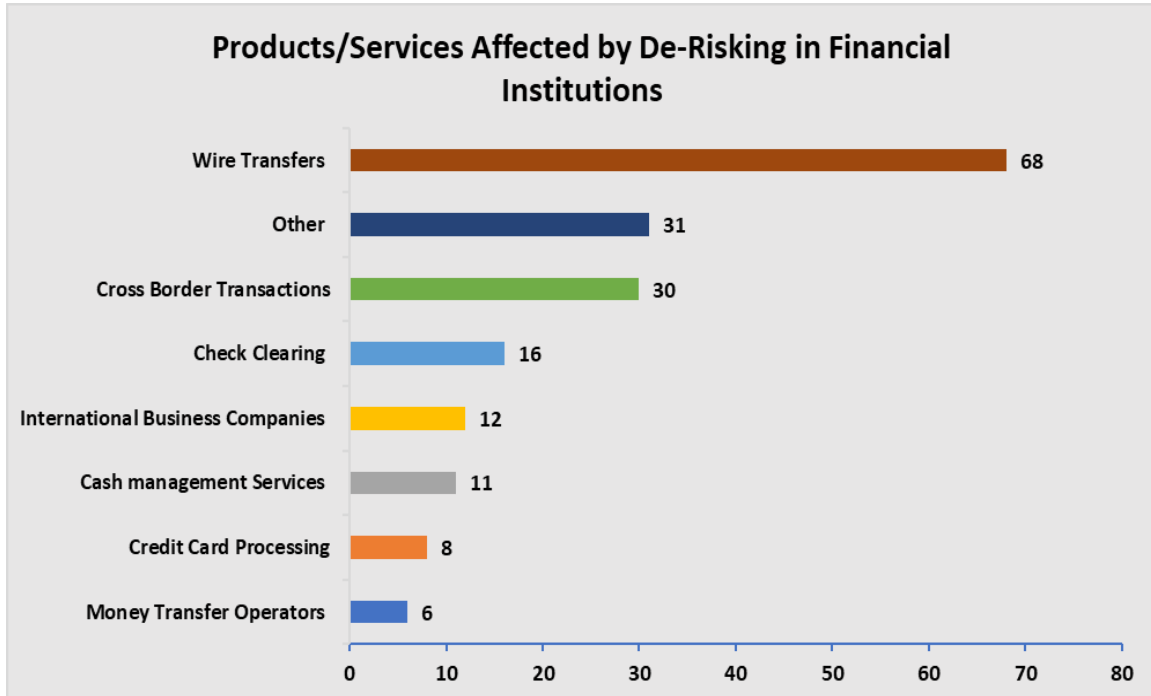
Figure 13 Country of Domicile for Correspondent Banks



Question #8 Products/Services Affected by ‘De-Risking’

FIs also indicated that the products that they offer are affected by ‘de-risking’. Out of the 182 FIs that reported being affected, wire transfers were the hardest hit in thirty-seven percent (37%) of all the FIs. Cross borders transactions were also negatively affected in 16% (30) of the FIs. Multiple services were captured in the ‘other’ category such as loans/letters of credit, foreign exchange services, importers, clearing and settlement, e-gaming/gambling and mobile banking. Combined, seventeen percent (17%) of the FIs reported that these products and services were affected as well.

Figure 14 Products and Services Affected by ‘De-Risking



Question #9 *Measures to Mitigate the Effects of ‘De-Risking’*

One hundred and eighty (180) of the FIs employed between one and four methods to address the negative effects of ‘de-risking’ in their organisations. The primary method used was strengthening the AML/CFT compliance program, followed by addressing the concerns of the correspondent banks, consulting with publications from standards setters such as the FATF and engaging with local and international regulators. Use of advanced technology was also utilized by the FIs to mitigate the effects of ‘de-risking’. Trust and/or service company providers and commercial banks tended to use multiple measures (between two and three) to alleviate the effects of ‘de-risking’ on their institutions. Sixteen (16) out of the forty-four (44) FIs that used two measures were Trust and/or service company providers while the same number of commercial banks were present for the forty-three (43) FIs using three mitigating measures.

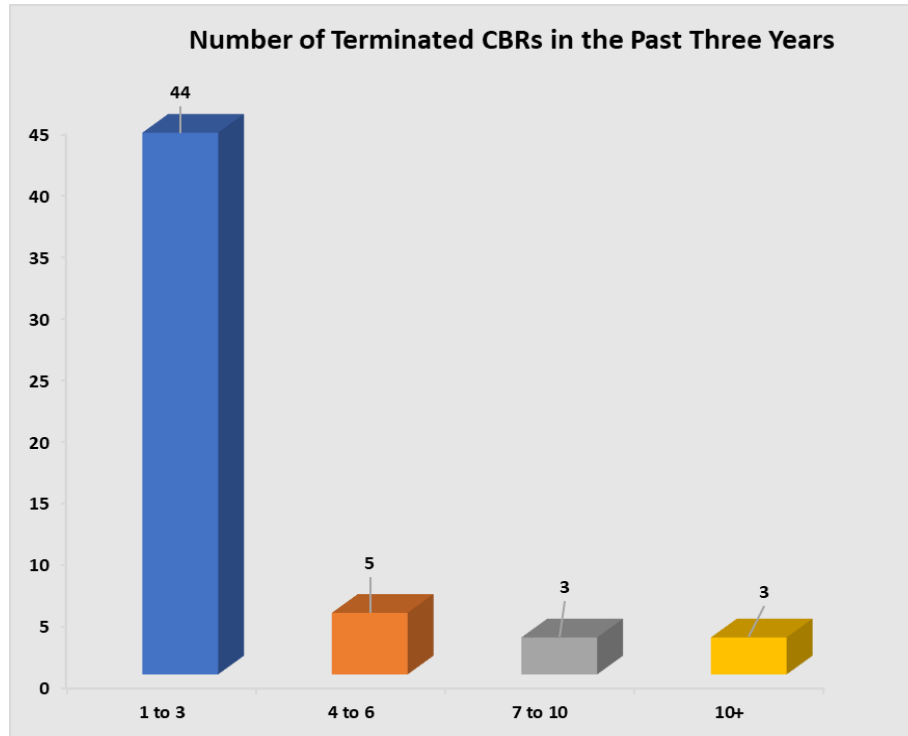
Question #10 *Number of Terminated Correspondent Banking Relationships*

A total of fifty-five (55) banks reported that they had their correspondent banking relationships terminated within the past three years. The majority of these (80%) saw between one and three relationships ending in that period. Five (5) FIs stated that between four and five of their CBRs



were terminated as well. Although there were FIs that experienced a high loss of CBRs (seven to ten or more) over the three years, collectively these accounted for eleven percent (11%).

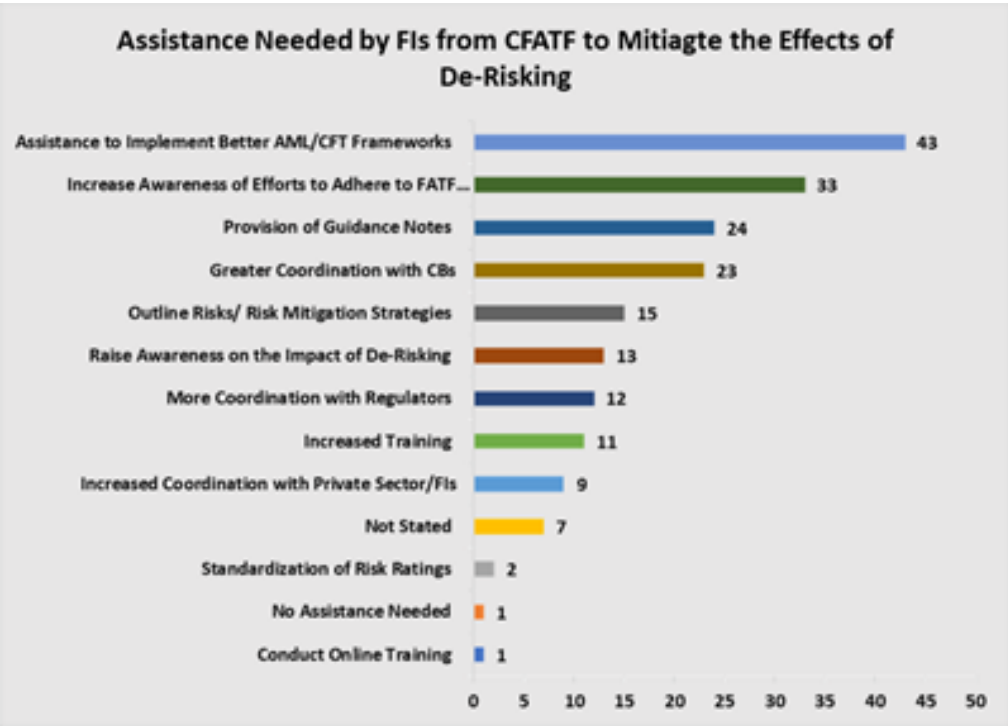
Figure 15 Number of Terminated Correspondent Banking Relationships on the Past Three Years



Question #11 *CFATF Assistance to Alleviate the Effects of ‘De-Risking’*

The respondent FIs were also asked to indicate how the CFATF can assist with efforts to alleviate the threat of ‘de-risking’ in the region. In all, one hundred and ninety-four (194) FIs offered suggestions with the majority of the (43) stating that assistance to implement better AML/CFT frameworks would be most pertinent. A substantial number of the institutions (33) have recommended that CFATF advocate to increase the awareness of the efforts they have made to adhere to FATF standards. Other proposed measures that featured prominently were provision of guidance notes (24), greater coordination with correspondent banks (23), outlining of risks/risk mitigation strategies (15) and raising the awareness of the impact of ‘de-risking’ in the region (13).

Figure 16 Assistance Needed by FIs from CFATF to Mitigate the Effects of ‘De-Risking’



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