

Recent Trends in Correspondent Banking Relationships

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Outline

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Trends

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Drivers

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Responses

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Fund's Role

What have been the recent trends in CBRs?

CBRs under pressure in several countries

Limited direct impact because of alternative arrangements put in place

Growing concentration in cross-border flows accentuating financial fragilities

Could undermine long-term growth and financial inclusions prospect

Overall Impact on Cross-Border Payments and Remittances

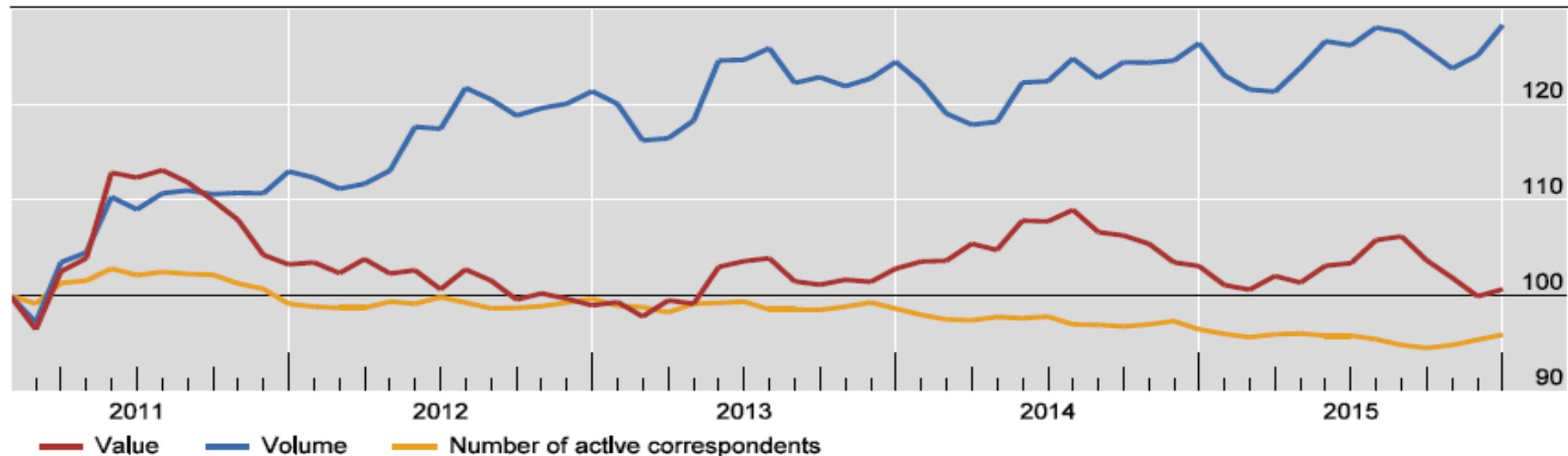
Pressure on CBRs varies significantly

Increase in costs of remittances have been non-systemic, modest and temporary

Overall cross-border payments remained stable

Correspondent payments

January 2011 = 100, three-month moving averages



Limited Number of Countries Directly Impacted

Staff assessments indicate that CBRs pressures have so far had a direct impact on only a limited number of countries' financial systems

**No significant
impact/moderate
impact**

The Bahamas, Barbados, Costa Rica, Cyprus, Grenada, St. Lucia, Tonga, El Salvador, Guyana, Jamaica, Kiribati, Kuwait, Lebanon, Morocco, Panama, Samoa, Saudi Arabia, Solomon Islands, Sri Lanka, St. Kitts and Nevis, St. Vincent and the Grenadines, and the United Arab Emirates

Adverse impact

Belize, Iran, Liberia, and Sudan

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Drivers: multiple and interrelated, but ultimately business decisions

Drivers behind CBR withdrawal are multiple, interrelated and vary case-by-case

Reflect correspondent banks' assessment of the profitability and risk of the relationships

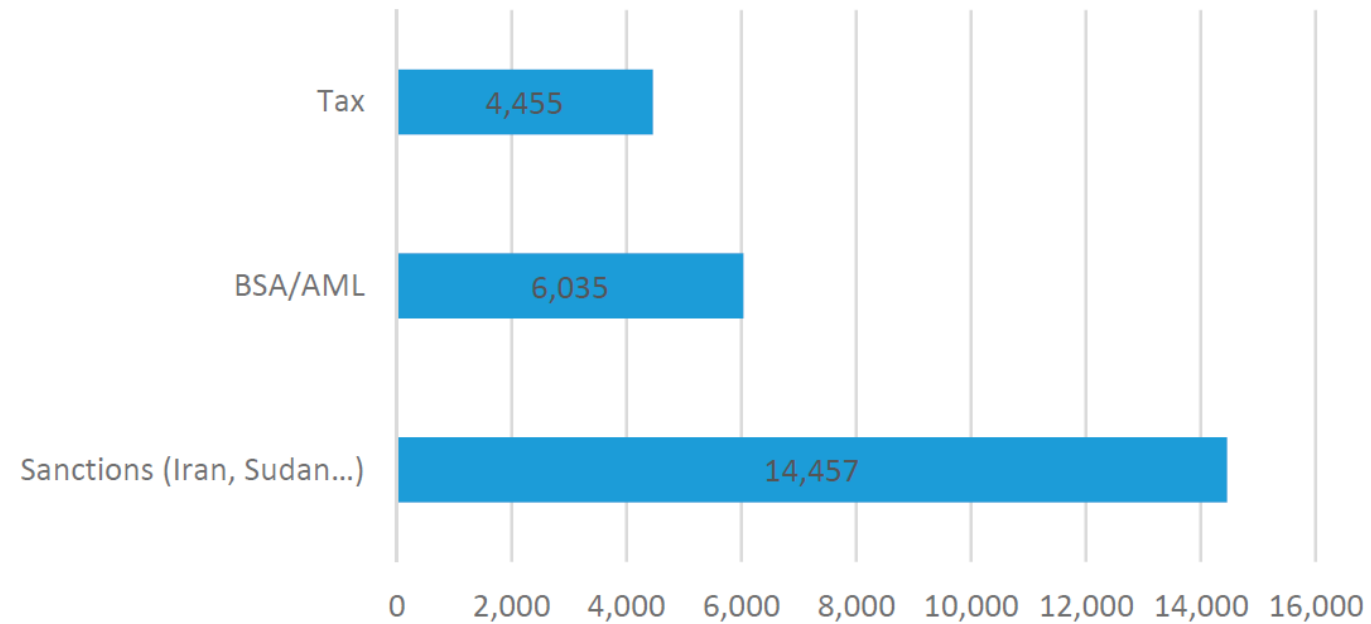
Decisions to terminate CBRs often relates to lack of confidence in the respondent bank's capacity to effectively manage risk

Changes in the regulatory and enforcement landscape

Enforcement actions across financial services industry

Breakdown of Fines paid by Breach of Customer Due Diligence Requirements (in USD millions)

Fines of \$100 million and above that were imposed on Banks from 2009-2017



Profitability Considerations



High-volume, low-return, balance-sheet-intensive activities in post-GFC make CB business less attractive

Increasing compliance costs weigh on profit margins

Cost of measures aimed at safeguarding against Cyber risks

Risk assessments considerations



Risk tolerance

- Clarity and consistency of regulatory expectations
- Proper implementation of AML/CFT risk-based approach
- High-profile enforcement actions

Risks associated with a specific CBR

- Respondent bank's size, customer base, risk compliance framework
- Quality and timeliness of information provided by respondent banks
- Data protection and privacy requirements

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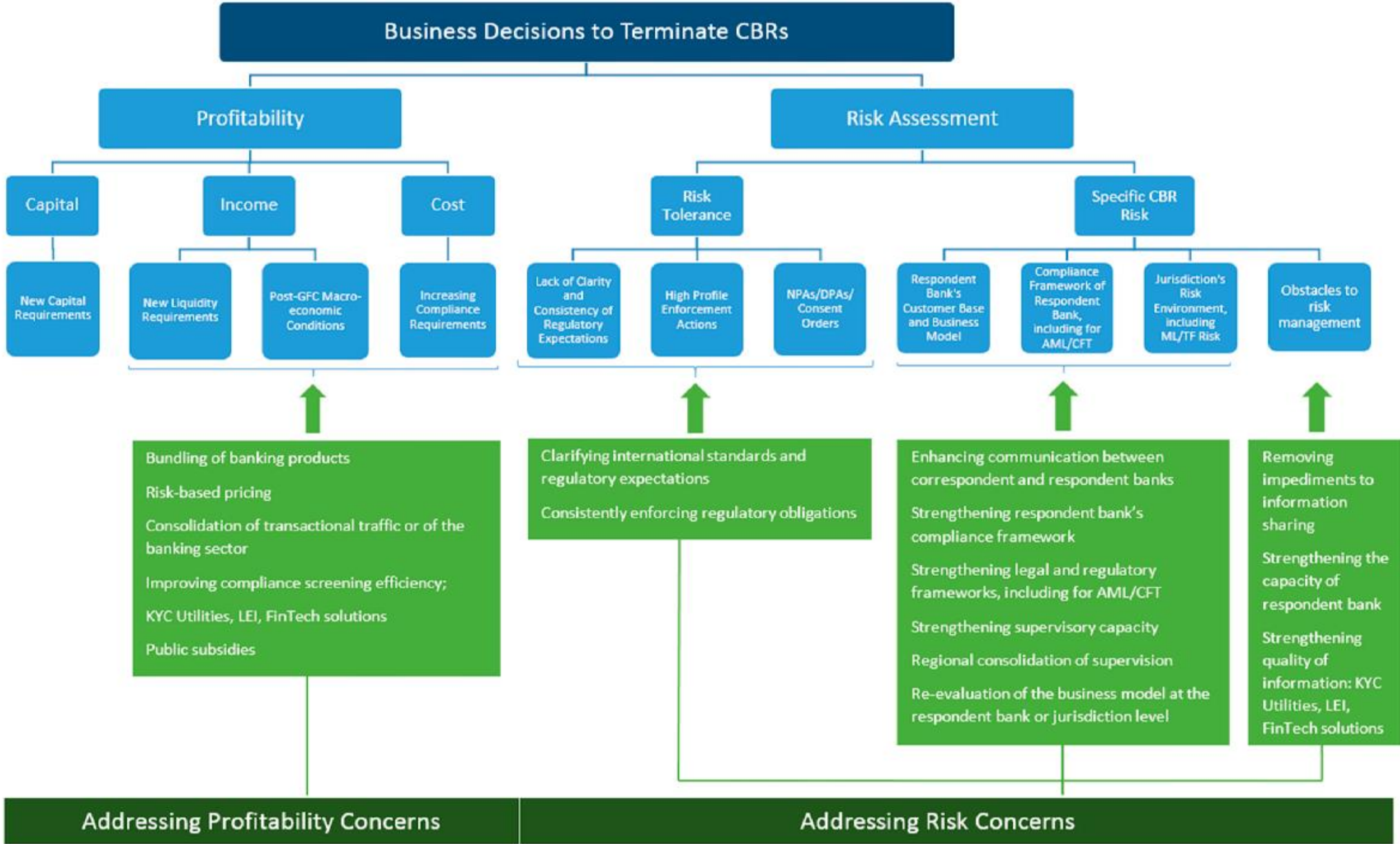
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Responses

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Fund's Role

Mapping policy responses and industry initiatives to drivers of CBR withdrawal



Overview of Responses

Measures with Significant Impact

Measures with limited impact

Alternative arrangements

Temporary measures

Overview of Responses

Measures with Significant Impact

Measures with limited impact

Alternative arrangements

Temporary measures

Enhancing communication between correspondent and respondent banks

Strengthening respondent bank's compliance framework

Consolidating transactional traffic ("downstreaming" and banks consolidation)

Improving regulatory and supervisory frameworks, including for AML/CFT

Clarifying regulatory expectations

Removing impediments to information sharing

Overview of Responses

Measures with Significant Impact

Bundling of banking products, risk-based pricing

Measures with limited impact

KYC Utilities, LEI, Digital identity

Alternative arrangements

Public subsidies of compliance costs

Temporary measures

Overview of Responses

Measures with Significant Impact

New players offering correspondent banking services

Measures with limited impact

Regional U.S. banking institutions to provide regional banking services

Alternative arrangements

Alternative remittance channels like postal services and mobile money

Temporary measures

Emerging Fintech solutions

Overview of Responses

Measures with Significant Impact

Measures with limited impact

Alternative arrangements

Temporary measures

Use of public entities or centralized payment systems

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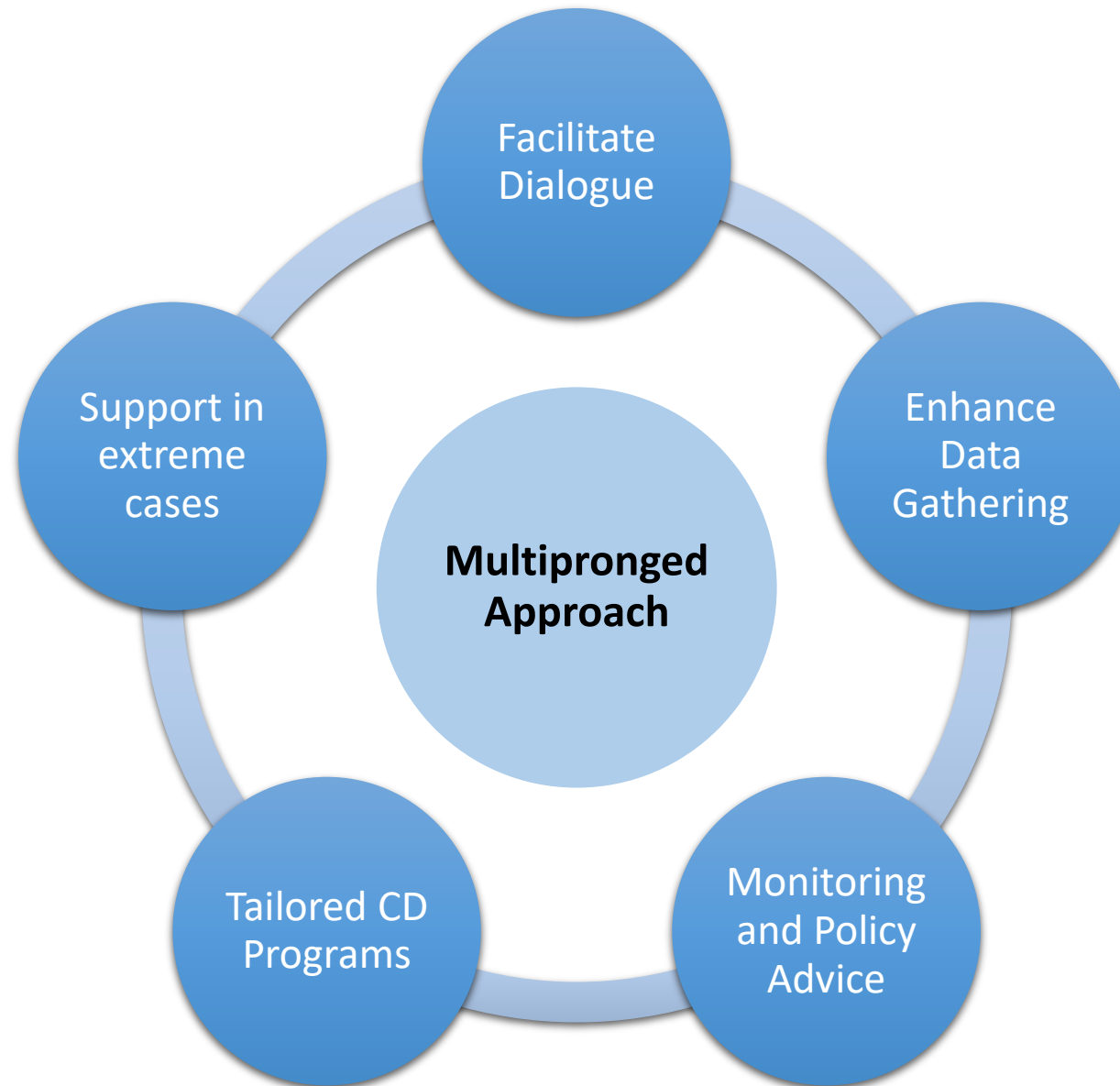
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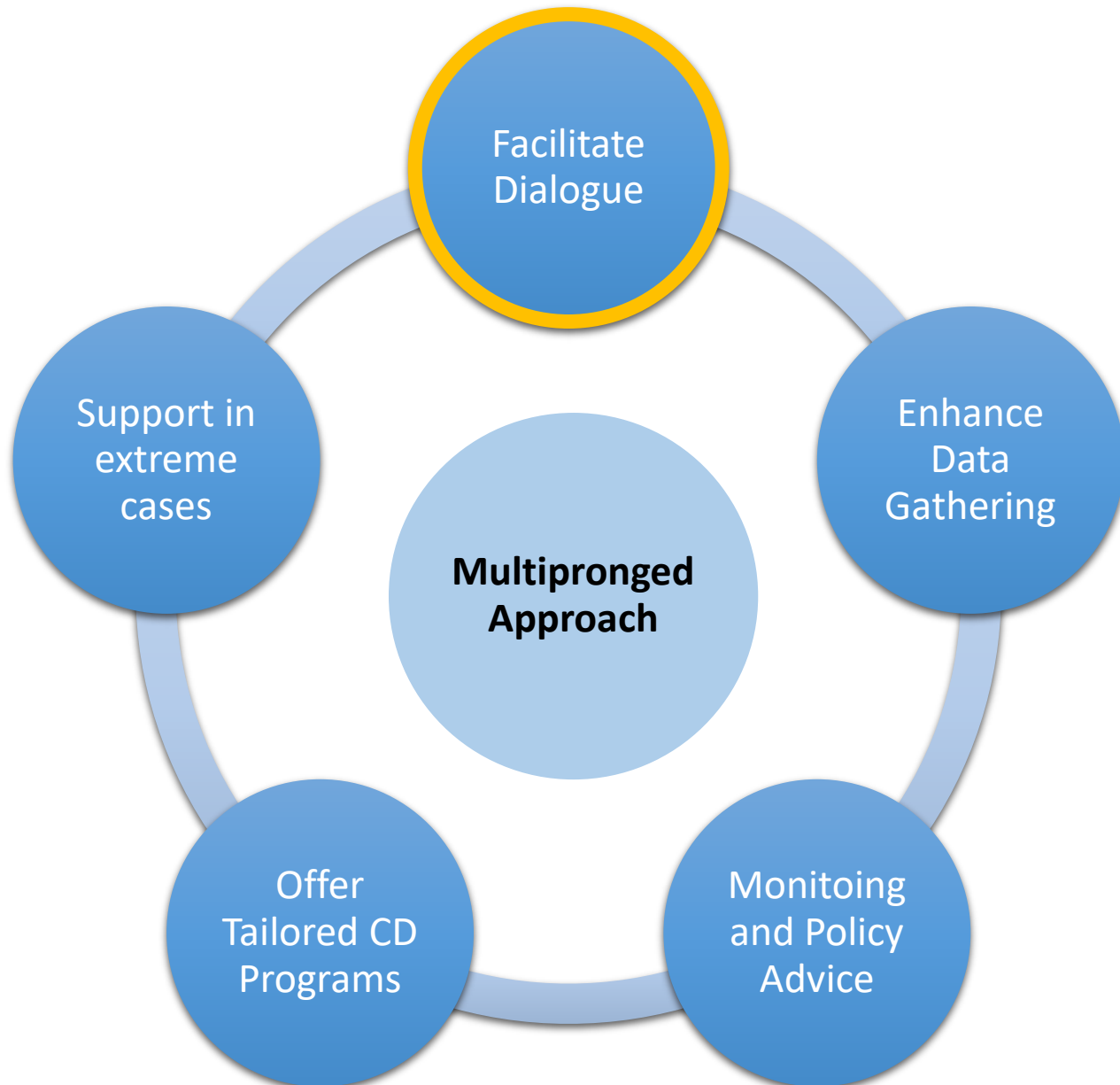
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Fund's Role

Fund's Role: Multipronged Approach

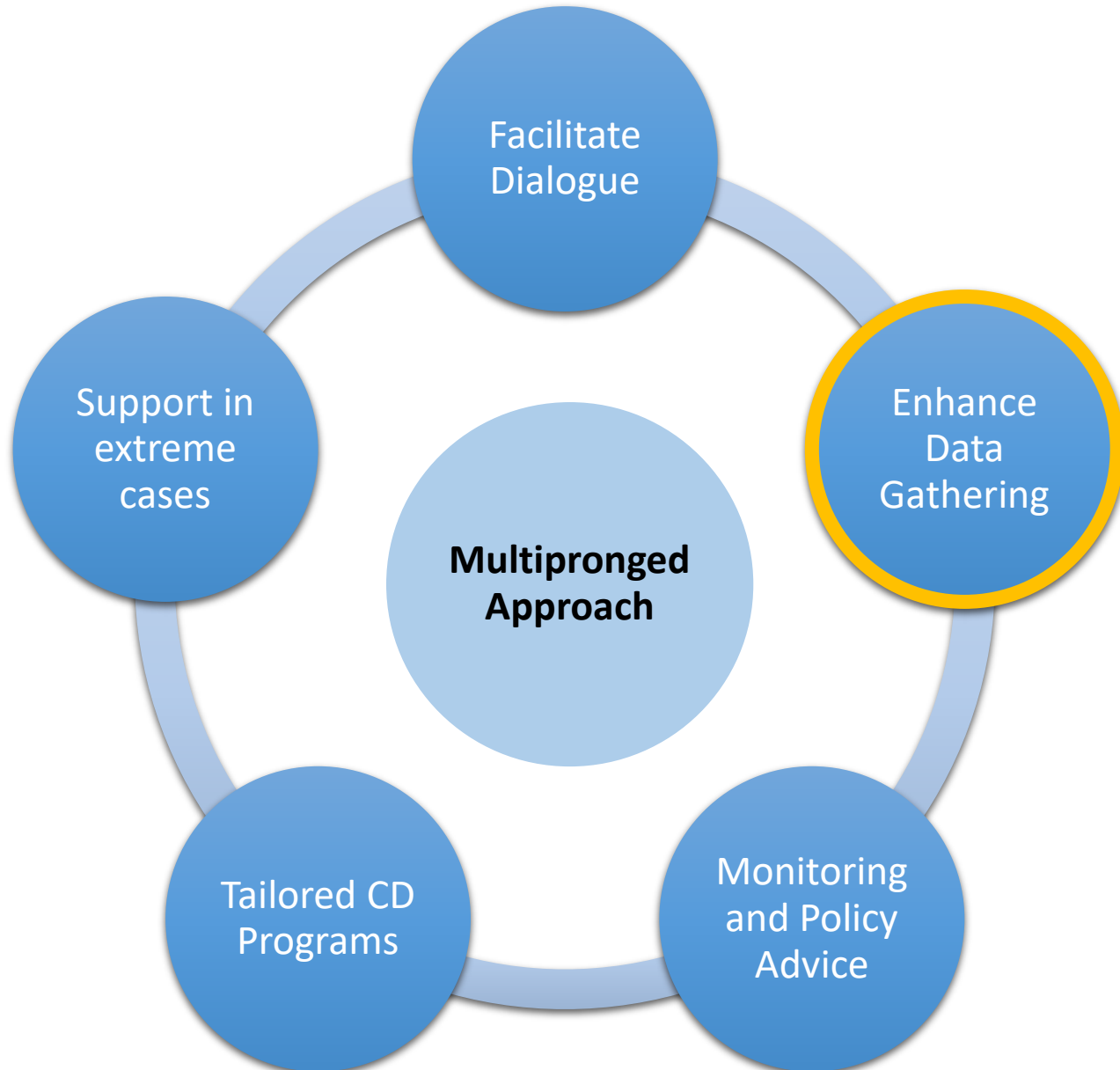


Fund's Role: Multipronged Approach



- ❖ Facilitate constructive dialogue among all parties to achieve practical solutions
- ❖ Encourage regulators to communicate clearly regulatory expectations
- ❖ Encourage member countries to work closely with correspondent banks
- ❖ Keep abreast of industry initiatives addressing CBRs withdrawal

Fund's Role: Multipronged Approach



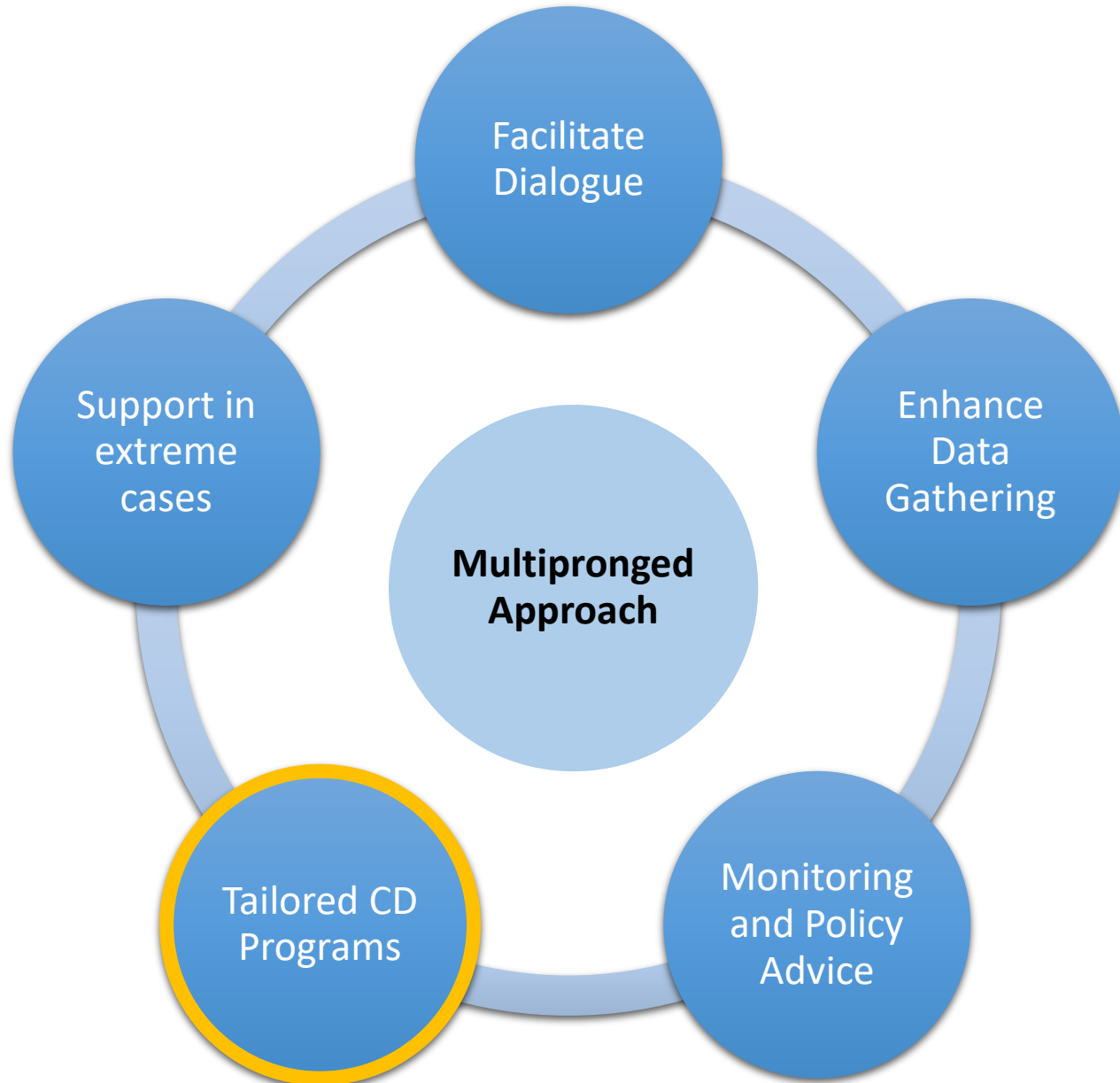
- ❖ Enhance understanding of phenomenon
- ❖ Analytical work on identifying the drivers and impact
- ❖ Encourage authorities to improve their own data collection

Fund's Role: Multipronged Approach



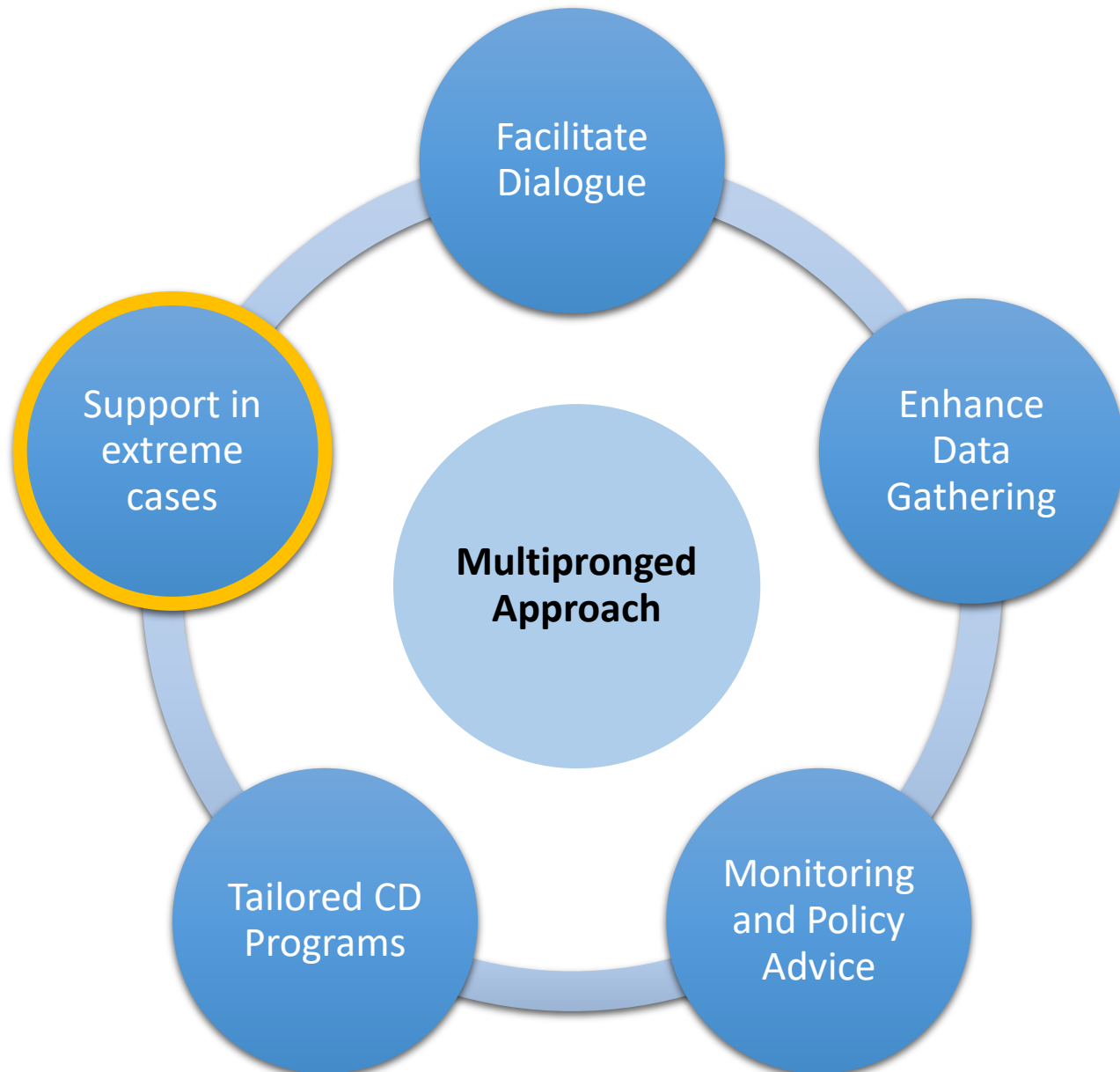
- ❖ Continue monitoring risks and assessing macro-critically of the issue
- ❖ Where relevant, discuss CBR-related issues in the context of surveillance activities
- ❖ Accumulate cross-cutting experience

Fund's Role: Multipronged Approach



- ❖ Expected increase in CD demand
- ❖ At country level, CBR CD program would follow a sequenced and targeted approach
- ❖ At the regional level, CD program would focus on regional responses and initiatives.

Fund's Role: Multipronged Approach



- ❖ Where surveillance and CD is not sufficient, the Fund could have a deeper engagement
- ❖ Use convening power to develop emergency measures
- ❖ Consider Fund-supported program accompanied by advice and TA to restore CBRs.

The IMF's Caribbean Initiative

Caribbean Roundtable on Regional Solutions to the Withdrawal of CBRs

FEBRUARY 22, 2017

BRIDGETOWN, BARBADOS



- ❖ Brought together correspondent bank respondent banks to discuss practical and actionable regional solutions to CBR withdrawal.

- ❖ Discussions confirmed that key drivers of withdrawals relate to:
 - Concerns regarding respondent banks' ability to manage risks
 - Profitability
 - General business and regulatory environment
 - Meeting regulatory expectations.

- ❖ 2nd Roundtable to be held in November 2017.

The IMF's Caribbean Initiative

Industry solutions with significant potential:

- ❖ Strengthening respondent banks' capacity to manage risks
(immediate priority)
- ❖ Consolidation of transactional traffic
- ❖ Reconsideration of some high risk business lines

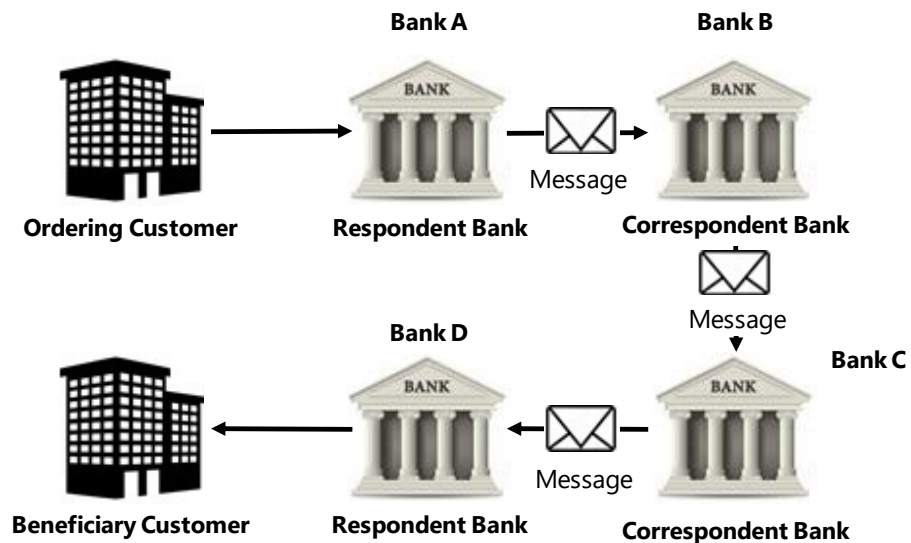
Government-led solutions:

- ❖ Effective implementation of standardized AML/CFT regulations
- ❖ Consolidation of AML/CFT supervision
- ❖ In case of emergency situations, use of central banks' own CBRs *(with potential moral hazard and reputational risks)*

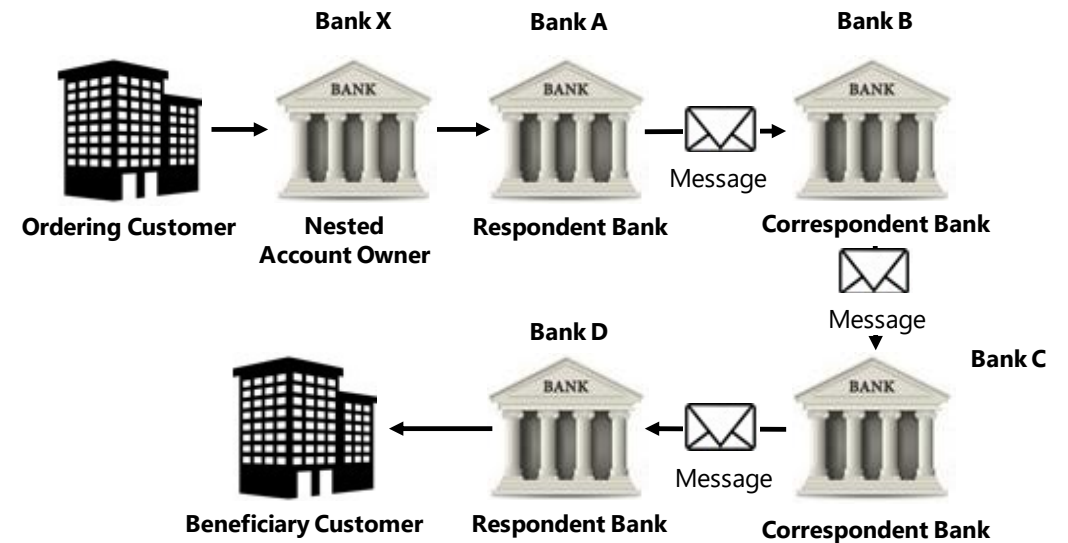
Thank You

Setting the scene: stylized examples of correspondent banking payments

Traditional Correspondent Banking



Nested Correspondent Banking



Three forms of correspondent banking services

- (1) **Traditional** (respondent and correspondent banks enter into agreement)
- (2) **Nested** (use of CBR by respondent bank's intermediate customers)
- (3) **Payable-through** (similar to nested)