Correspondent Banking Challenges in the Caribbean

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Introduction

• Several banks in the Caribbean have lost important correspondent banking relationships (CBRs)
  – More than 10 banks in at least five countries (as of June 2015), including at least two central banks
    • At least one systemic bank in at least one country
  – Impact has been contained so far, but CBR-related risks and vulnerabilities have strongly increased for all banks, and remittance and other flows may have been affected; systemic risk if all CBRs were to be lost from a country
  – Similar trends in other parts of the World (Latin America, Middle East, North Africa, Asia)
  – International banks are also withdrawing from cross-border activity more generally
The CBR challenge

• Diagnosis
  – Why have some CBRs been discontinued in the Caribbean?
  – What have stakeholders learned so far?

• Policy options and/or possible steps to overcome the CBR challenge
  – Key challenge: private entities are making their decisions on “de-risking” based on their perceptions of risks, costs and benefits: can one change their perceptions of risks associated with some clients or business lines? their costs?
Diagnosis

• Why are CBRs being lost in the Caribbean?
  – Implementation of global regulatory standards (AML/CFT and prudential), which may have raised compliance costs for banks providing CBRs?
  – Enforcement action with substantial pecuniary fines?
  – General retrenchment by global banks?
  – National or bank-specific AML/CFT weaknesses or risk factors?
  – Poor communication between countries/banks involved in CBRs?
  – Other causes?
Response to date

• Fact finding
  – IFIs and other bodies conducting surveys; still in train
  – IMF’s efforts to monitor de-risking in the context of surveillance
  – Lobbying of major banks, their regulators, and the standard setters by Caribbean banks and their regulators
  – Statement by FATF calls for proportionate implementation of AML/CFT standard
Possible measures to overcome the CBR challenge

• Goals
  – Prevent new losses of CBRs
  – Restore lost CBRs or find replacement CBRs
  – Raise Caribbean regulatory and industry practices to international standards

• Responsibility falls in the first place on the banks; the Caribbean authorities have responsibility to implement an effective AML/CFT regime and provide the enabling environment to prevent knock-on effects on to the economy
General measures

• Ongoing, but implementation more urgent
  – Continue to implement FATF and other recommendations
    to strengthen the financial sector, including the AML/CFT
    frameworks; increase dissemination of progress

  – Harmonize prudential/regulatory systems so as to reduce
    information gathering costs. Thus a CBR will become more
    familiar with Caribbean practices and not incur the costs of
    surveying the variations

  – Establish platforms for better cooperation and dialogue
    between international banks and regulatory authorities in
    the Caribbean and in advanced countries
Specific measures

• Specific measures in response to the challenge

  – Banks and regulators avoid future loss of CBRs by enhancing responses to questions from CBRs and their regulators.

    Prompt, complete answers to questions; pro-active interaction to generate trust and credibility

  – Banks reportedly finding alternative CBRs.

    This can work for some, but such banks may not be “household names” and may carry risks, loss of transparency; regulators to provide guidance

  – Identify bank willing to act as centralized conduit for CBR

    Possible strong regional commercial bank, with capacity to undertake deep KYC review, in impeccable standing with regulators
Immediate/interim measures

• Central banks to assume role as counterparts to CBRs if necessary
  
  But may have limited capacity; and may put their own standing in jeopardy

• Agree on a Caribbean strategy to tackle the CBR challenge at the regional level with assistance from relevant IFIs

  The strategy could be laid out in a written document approved by country authorities, updated frequently, with possible assistance from the IFIs
Next steps

- Discussions will be held at Fund/Bank Annual Meetings in Lima, October 2015: meeting arranged by FSB and World Bank; complementary meetings, including meetings hosted by Peruvian authorities.

- Amongst others, regional meeting of the FSB in Barbados, December 2015, will bring various strands together

- Meanwhile, IMF has Interdepartmental Working Group on De-Risking, examining the issues, with expectation of providing further guidance in 2016.

- Continuing lobbying: e.g. by Caribbean bankers’ association (high-level lobbying also under way from emerging markets outside the region).
Where then?

• Market failure, in which it becomes increasingly hard especially for small states to conduct cross-border financial business, leading to loss of export revenue and remittances, and fragmentation from the global financial system?
• Market solution, in which fewer global banks provide correspondent banking services, but these may largely be made up by regional banks and outside banks pursuing this as niche business?
• Seek path to the latter.........
Thank You...