

# Correspondent Banking Challenges in the Caribbean

Charles Enoch and Jacques Bouhga-  
Hagbe

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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...

