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**De-risking:
The World Bank's Efforts**

**KEY FINDINGS, RECOMMENDATIONS, AND POTENTIAL ROLE
FOR THE WORLD BANK**

(by videoconference)

SESSION # 4



Emile Van Der Does de Willebois
Global Lead on Financial Market Integrity Issues
World Bank

De-risking: The World Bank's Efforts

KEY FINDINGS, RECOMMENDATIONS, AND POTENTIAL
ROLE FOR THE WORLD BANK



WORLD BANK GROUP
Finance & Markets

UNCTAD's Multi-Year Expert
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Development

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“De-risking” vs. business-related decisions

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

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

Not all withdrawal of service is “de-risking”

Why do we care?

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

World Bank data gathering efforts

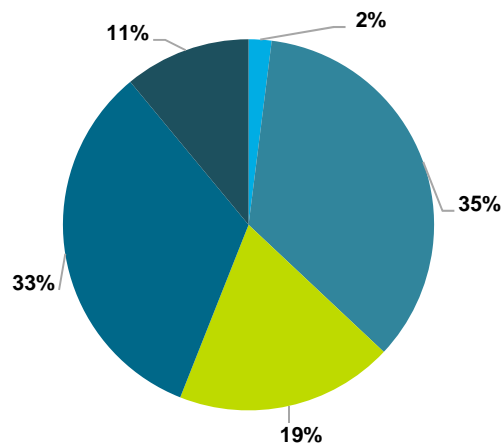
Between April and October 2015, the World Bank Group conducted two surveys on de-risking

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

CBR Survey – overall trends in CBRs

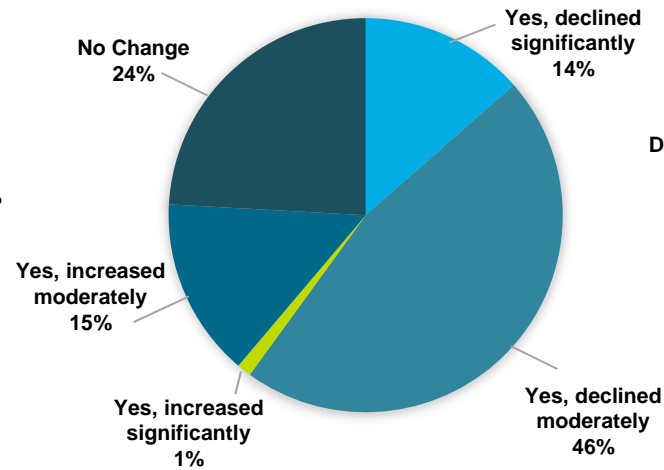
- Participation: 110 banking authorities, 20 large banks, 170 smaller local and regional banks
- Roughly half the surveyed banking authorities local/regional banks experienced a decline in CBRs
- 75% of large international banks indicated a decline

Authorities: Nostro Accounts Trend

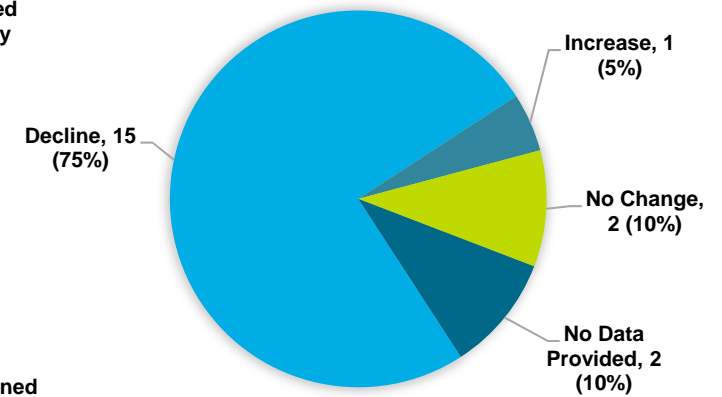


■ Increased Significantly
■ Declined Significantly
■ Some Decline
■ No significant change
■ Unknown/No Response

Local/ Regional Banks: Nostro Accounts Trend



Large Banks: Vostro Accounts Trend



■ Decline
■ Increase
■ No Change
■ No Data Provided

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

CBR Survey – affected jurisdiction profiles

- Small jurisdictions with low volumes of business/transactions
- Small jurisdictions with significant offshore banking activities
- Jurisdictions perceived as high-risk for ML/TF or subject to international sanctions- fragile and conflict states
- Regions most affected include the Caribbean, Africa, and Europe and Central Asia
- The decline in foreign CBRs appears to play a role in the financial institutions of major world economies, as well

CBR Survey – impact on products, services, and client segments

- **Affected Products and Services:** (check) clearing and settlement, cash management services, international wire transfers and, for banking authorities and local/regional banks, trade finance.
- **Affected currencies:** The ability to conduct foreign currency denominated capital or current account transactions in US dollar (USD) has been most significantly affected followed by Euro, pound sterling (GBP), and Canadian dollar (CAD).
- **Affected Client Segments:** Money transfer operators and other remittance companies are most affected, followed by small and medium domestic banks and small and medium exporters. Non-profit organisations and charities mentioned as “high risk” - ample evidence of derisking affecting humanitarian aid.

CBR Survey – key policy issues

Regulatory expectations

- Policy debate whether there is an obligation to conduct due diligence on the customer's customer(s) – in the context of CBR, this means the customers of the respondent bank. This is also referred to as 'know your customer's customer' or KYCC.
- Misunderstanding of this issue, especially among local/regional banks and banking authorities
- Most large banks do not consider having an explicit legal KYCC obligation; however, in certain cases large banks do conduct such diligence on a risk basis

Net effect

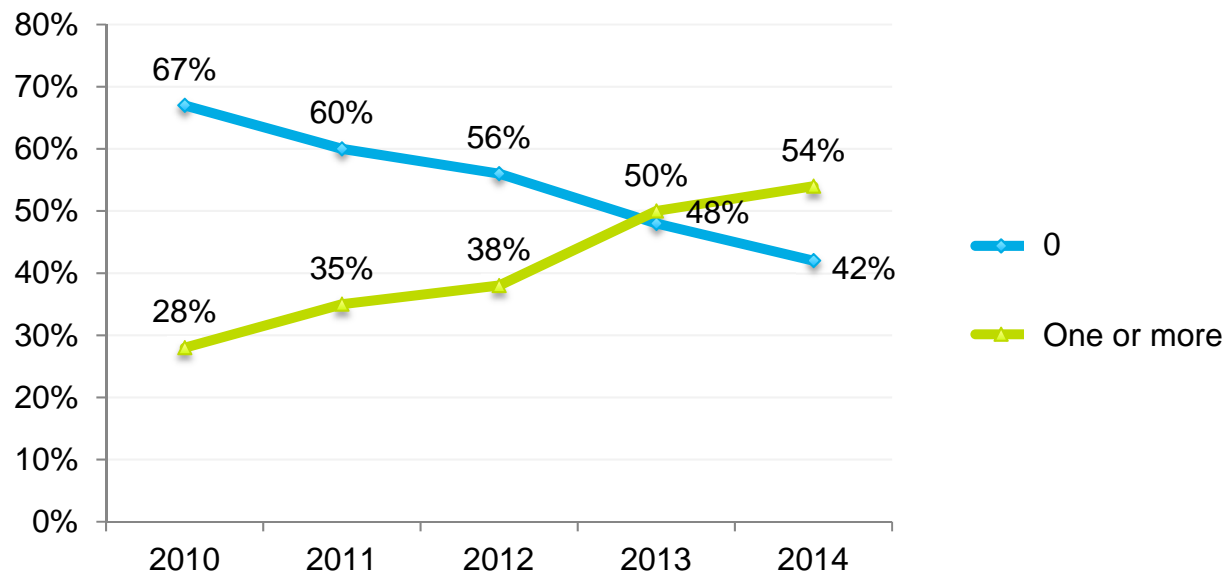
- The ability of financial institutions to find alternative correspondent banks varied, but the majority indicated they were able so far to find replacements
- Time/cost involved in finding alternative channels are significant and the terms and conditions were not comparable to the previous foreign CBRs, with some noting a substantial increase in pricing

MTO Survey – overall trend in account closure

- Focus of MTO survey was G20 member countries only
- Between 2010 and 2014 MTO account closure in some countries (including Australia, Canada, Germany, France, Italy, Mexico, the UK and the US) have become more pronounced

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

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



MTO Survey – views on supervision and enforcement

Differing views on the effectiveness of supervision

- 85% of the governments and 88% of MTO respondents stated they believe banks can rely on adequate supervision of the MTO sector
- Only 52% of bank respondents judged that the MTO sector is sufficiently supervised and only 48% of bank respondents felt that they can rely on the supervision of the MTO sector to inform risk-based decisions on opening/maintaining accounts for MTO customers

Differing views on enforcement actions

- Very few MTOs (in this sample) that have been fined, suspended, sanctioned or received some other enforcement action for an AML/CFT-related violation between 2012 and 2014, however, the number has increased over time
- 78% of MTO respondents indicated no record of sanctions or other enforcement actions related to AML/CFT.

MTO Effect on costs?

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

CBR and MTO Surveys – consolidated findings

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

Recommendations to countries

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

Recommendations to countries

- **Ensure the implementation of a risk-based approach – by supervisors and financial institutions**
 - Supervisors need to take a more direct role in effective risk-based supervision and risk-based enforcement
 - Supervisors should state there won't be a zero tolerance approach for failures to detect money laundering
 - Supervisors should clarify the obligation, if any, on KYCC

- **Increase communication and information sharing**
 - Regulators and supervisors need to increase their communication
 - Need to improve the information position of large banks to lower costs
 - Need for more precise risk-based guidance to banks on the provision of bank accounts and banking services to MTOs and their agents

Role for World Bank

- **Context:**

- Increasing focus on terrorism financing and concerns about being involved in those money flows (predominantly MENA/Somalia for the time being)
- Panama papers- concerns about involvement in money laundering/tax evasion

- **Global level**

- Continued work on global policy influence:
 - G20- both financial inclusion (Global Partnership for Financial Inclusion) and Development Working Group
 - CPMI
 - FATF- on development of guidance on correspondent banking and new standards on non-profit organisations

Role for World Bank

- **Global level (cont'd):**
 - Participation in FSB coordination groups:
 - Work streams on data collection and analysis to help guide country authorities on gathering data and analysis and on coordination of TA on AML.
- **Convening power:**
 - Launching “Stakeholder Dialogue on Derisking” together with Association of Certified AML Specialists-bringing together actors from developed and developing countries, both private and public (including large clearing banks and smaller local/regional banks, regulators, law enforcement, SSBs and IFIs)

Role for World Bank

- **Technical assistance at country/regional level:**
 - Further monitoring- possible WBG country studies in EAP;
 - Encourage cooperation between supervisors and the financial sector to ensure risks posed by specific relationships are correctly assessed and efficiently managed and mitigated;
 - Implementation of AML/CFT standards, risk assessment, communicating on country efforts, assisting in outreach to financial centers (supervisors and financial institutions);
 - Ensure bespoke solution in crisis situation (eg Somalia Remittances project)

Thank you

EMILE VAN DER DOES DE WILLEBOIS

EVANDERDOES@WORLDBANK.ORG



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