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De-risking in Latin America and the Caribbean Region

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World Bank survey on Correspondent Banking Relationship (CBR)

The World Bank Group (WBG) conducted two surveys on de-risking in 2015:

- Survey on the withdrawal from correspondent banking, in coordination with the Financial Stability Board and the Committee on Payments and Market Infrastructures
- Survey on Money Transfer Operators (MTO) account access, at the request of G20 Global Partnership for Financial Inclusion and the Development Working Group.

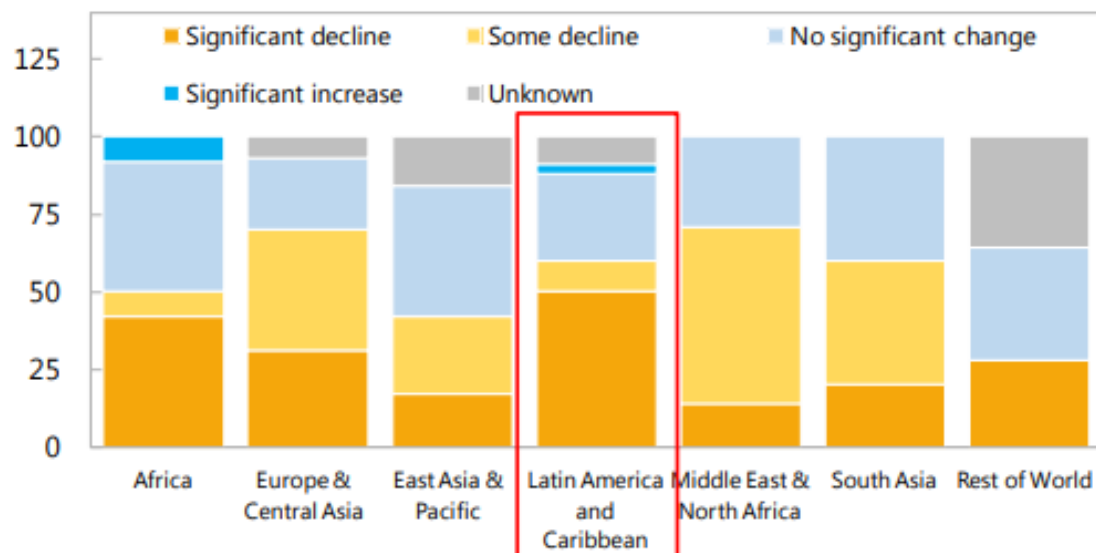
Withdrawal of CBRs in LAC

LAC region reported the largest decline in the correspondent banking relationships...

... with the trend being more apparent in the Caribbean than in Latin America.

Banking Authorities: Trend in Foreign CBRs

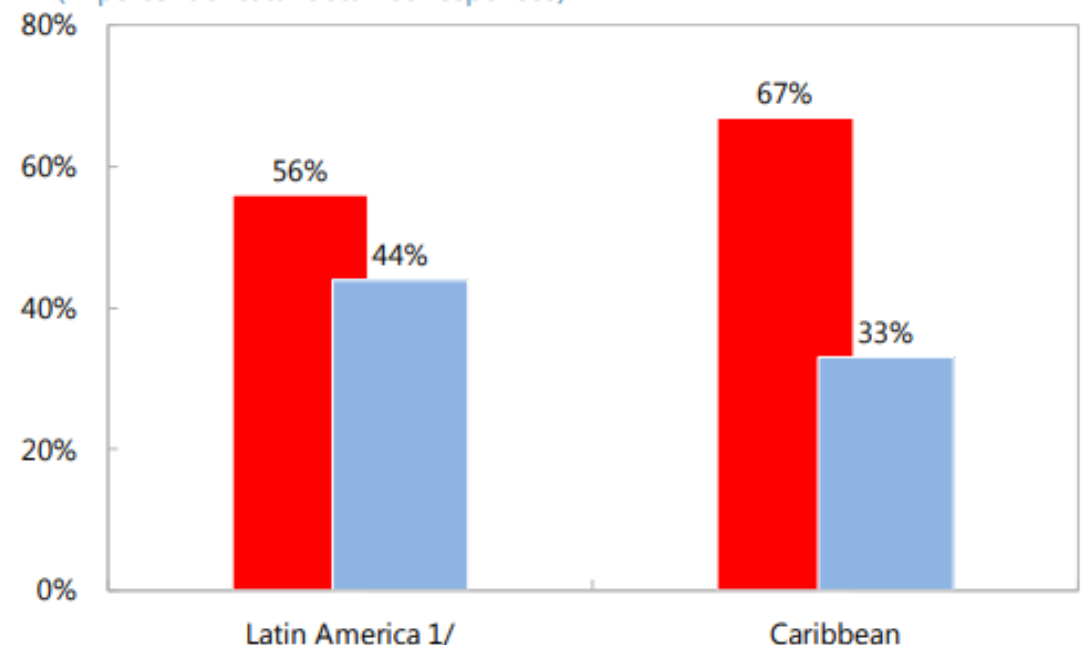
(In percent, regional breakdown, nostro accounts)



Sources: World Bank, "Withdrawal from Correspondent Banking: Where, Why, and What to Do About It", November, 2015. Survey was completed by 97 authorities (80% RR). Nostro ("ours") and vostro ("yours") accounts term is 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

Existence of "De-risking"

(In percent of total obtained responses)



Source: Asociacion de Supervisores Bancarios de las Americas, September 2015. 1/ Latin America and Spain.

2018 World Bank Country Case Studies on *de-risking*

The WBG commissioned a series of country case studies aimed at analyzing in the field the impact of de-risking on developing economies, including effects on MTOs and *final customers*

Case studies were undertaken from April to November 2017 in the following eight countries:

1. Bangladesh
2. Guatemala
3. Jamaica
4. Mexico
5. Tonga
6. Samoa
7. Philippines
8. South Africa

Countries were selected based on: (i) magnitude and scale of de-risking and on (ii) the impact on remittances activities



Key findings I

De-risking is still happening, but intensity varies

- All surveyed countries reported cases of de-risking
- Effects vary substantially from institution to institution, from country to country
- Small countries with low volumes of transactions were also impacted
- International banks do not de-risk specific jurisdictions (with exceptions), but rather specific institutions

Macro-economic consequences have remained limited

- In a few countries the net loss in CBRs has been marginal
- In countries where there was a net reduction, the impact remained contained
- Banks managed to find new CBRs or to make do with fewer CBRs

Key findings II

Correspondent banking has become more costly

- Costs generated by higher due diligence related to AML/CFT regulations, as well as sanctions regimes
- Correspondent accounts, existing and new ones, are more expensive and burdensome to maintain, both for respondent and correspondent banks
- The impact of the higher costs is absorbed by banks and only rarely passed on to clients – costs are simply often not seen as worth the risks

In rare occasions, the impact has been severe

- In one visited country, one prominent bank lost all CBRs for several months
- De-risking is having negative impact on banks' credit ratings
- Several examples of loss in customers and profitable businesses

Key Findings III

MTOs and remittance service providers are particularly affected by de-risking:

- In all surveyed countries a number of banks were instructed from their correspondent banks not to service MTOs anymore
- To remain in business some MTOs resort to unconventional methods

Reasons cited by banks for terminating services to remittance firms are:

Profitability,

Perceived high risk of some remittance firms' practices (large volumes of cash transactions; sending money to jurisdictions that are considered high risk, etc)

Lack of confidence in the supervision of remittance firms, lack of compliance with FATF standards

Key Findings IV

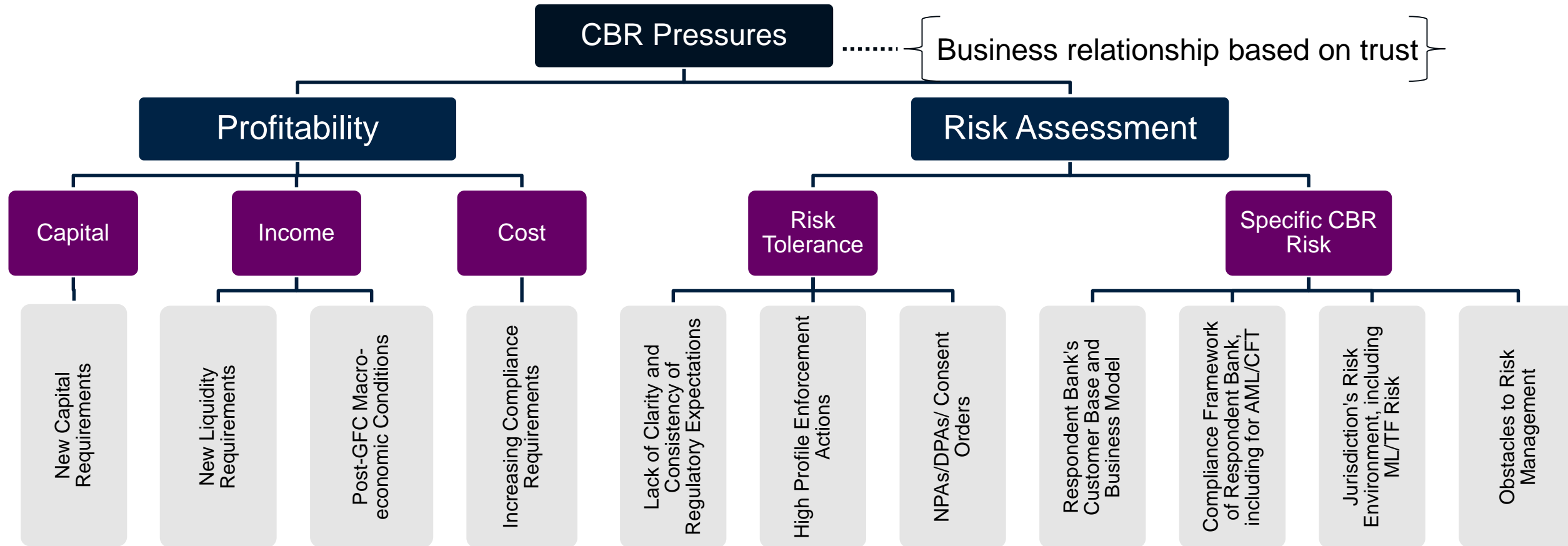
- Direct impact of de-risking on remittances is still unclear
 - No clear relation between price or volume of remittances and extent of de-risking identified
 - However, major concerns in countries highly dependent on these flows
 - Remittances in Guyana (13% of GDP), Haiti (22%) and Jamaica (15%) indicate a high degree of dependence on these flows.

Cost of remittances by destination region
(in percent of amount sent
Source: FSB, WB)



Key Findings V: Drivers of de-risking

Drivers of CBR pressures remain the same (IMF/WB)



Concluding Remarks I

No large scale de-risking in LAC, but pockets of vulnerabilities:

1. Trend towards concentration of correspondent banking services with fewer institutions handling larger volumes
2. Concentration of MTOs and remittances flows raises the prospect of systemic risk
3. Where global banks terminated CBRs, local banks replaced them with second tier banks to survive
4. Surplus of cash is becoming a problem in one visited country as no bank wants to take cash from MTOs and Cambios

These recent trends defeat the purpose of AML/CFT standards

Concluding Remarks II

In the LAC region, a few specific measures could be taken by the relevant authorities:

- Gather data on CBR closures and on nostro-vostro accounts in banks and monitor trend
- Design a contingency plan to address any severe deterioration in CBRs
- Explore the possibility of designing a global approach to address the de-risking issue domestically and regionally
- Liaise with the industry and Fintech actors to discuss solutions to de-risking
- Implement strong AML/CFT regimes, moving to a risk based approach

De-risking is a phenomenon that continue to persist

- Latest news confirm the trends of the WBG latest study.

Thank you

