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STEMMING THE TIDE OF DE-RISKING THROUGH INNOVATIVE TECHNOLOGIES AND PARTNERSHIPS

SPECIAL REPORT COLLATING VIEWS ACROSS THE AFI AND G-24 MEMBERSHIPS, AND DEEP DIVE DISCUSSIONS WITH IMPACTED COUNTRIES

AFI SPECIAL REPORT

GLOBAL STANDARDS PROPORTIONALITY (GSP) WORKING GROUP

INTERGOVERNMENTAL GROUP OF TWENTY FOUR
G-24

EXECUTIVE SUMMARY

> The scale, drivers and impact of de-risking vary considerably between different AFI and G-24 jurisdictions: the majority have experienced limited or moderate de-risking. However, for some countries de-risking is viewed as having a systemic impact on access to international finance and investment.

> Countries with a heightened risk of money laundering or terrorist financing; that are subject to economic sanctions; or located next to a jurisdiction subject to economic sanctions, are subsequently more likely to experience cross border, systemic de-risking.

> De-risking is not only associated with global banks. AFI and G-24 members reported local and regional banks also closing domestic accounts for certain types of 'higher' risk groups.

> There are a growing number of examples where developing economies have successfully overcome 'Know Your Customer' challenges to ensure an increase in financial inclusion for low income individuals. Promoting such examples and setting out how they comply with AML/CFT obligations is seen as an important element in harnessing the opportunities of digitisation and setting a proportionate regulatory framework.

> Balancing the cost of compliance with continued access to banking services for higher risk customers, business lines and countries is a growing concern.

> Cross border regulatory harmonisation; supporting evolving technologies; and preventing an overly stringent application of the AML/CFT framework are viewed as critical components for addressing de-risking. Achieving this will be reliant on enhanced global dialogue.

> Impacted countries need to be more engaged in the global debate on identifying local and cross border solutions to de-risking; for example within the Financial Action Task Force (FATF) and global World Bank and IMF fora.

This special report details work being undertaken by the Alliance for Financial Inclusion (AFI) and the Intergovernmental Group of Twenty Four (G-24), on dialogue and 'thought leadership' surrounding practical solutions to the challenge of de-risking.

During the IMF and World Bank Annual Meetings in Lima, 7 October 2015, participants were asked to note preliminary findings, discuss next planned steps, and identify future opportunities for collaborative work with other stakeholders in relation to shared and sustainable solutions. Deep dive discussions were then conducted across a selection of impacted countries to ensure future public-private sector dialogues robustly represented views of smaller and impacted countries. The outcome of this dialogue was report at the IMF and World Bank Spring Meetings, 13 April 2016. The paper has subsequently been updated following the AFI Global Standards Proportionality Working Group Meeting 7-9 June 2016, held in Moscow.

INTRODUCTION

Money laundering and the financing of terrorism are of global concern and left unchecked can impact negatively on security, economic development and social cohesion. Accordingly countering these threats has become a key priority for international standard setters, governments, civil society and the financial sector.

A strong approach to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) is essential and can have many positive effects. However, at the same time significant far reaching regulatory developments have changed the compliance and risk management landscape. These changes have reportedly created certain tensions within wider public policy objectives, specifically financial inclusion; supporting investment and innovation; facilitating trade.

DE-RISKING

The de-risking phenomenon whereby large global banks are terminating or severely restricting relationships with categories of clients has been a significant, unintended consequence of changing risk management and regulatory frameworks. De-risking can manifest itself in a number of ways, with the most frequent responses including:

> banks limiting their exposure to certain high risk customer sectors, e.g. money transfer operators/ remittance providers;

> taking steps to avoid an overconcentration to a particular type of risk, e.g. correspondent banking;

> limiting the types of services offered to higher risk relationships, e.g. cash clearing activity, bank notes, etc.;

> curtailing certain products and services in, and for, certain countries and customer sectors.[1]

Important work to better understand the issue of de-risking has already been advanced by a variety of institutions. The International Monetary Fund (IMF) and World Bank Group have worked across a range of stakeholders to progress substantive analysis of the issue, including World Bank Group surveys conducted on behalf of the G20 Global Partnership for Financial Inclusion (GPFI). The World Bank surveys, carried out from April to October 2015, findings show that access to financial services for local and regional banks and remittance providers is contracting in some countries and regions and that correspondent banking, business lines such as check clearing, international money transfers, and trade finance are being affected.[2]

Reports and analysis have been further advanced by the British Bankers' Association (BBA), FATF, Institute of International Finance (IIF), Commonwealth Secretariat, International Monetary Fund (IMF) and the Wolfsberg Group, amongst others.

The Financial Stability Board (FSB)[3] and some domestic regulators[4] have equally undertaken surveys and policy analysis on the issue.

Members of AFI and the G-24 raised concerns around de-risking in a high-level meeting with the global standard setting bodies (SSBs) convened by H.M. Queen Máxima in her capacity as the UN Secretary General's Special Advocate for Inclusive Finance for Development, in October 2014, and discussed the issue in detail at the 7th Annual G-24/AFI Policymakers' Roundtable at the Spring Meetings of the IMF and World Bank in April 2015. The discussions focused on the opportunities and risks arising from the inter-linkages of financial inclusion policies and global standards. Members highlighted:

> a strong link between financial inclusion, financial stability and economic growth;

> the importance of determining an appropriate enabling environment to support financial inclusion

> evidence of major threats from de-risking strategies of international banks;

> progress achieved through strategic dialogue between the AFI Network and the global Standard Setting Bodies (SSBs).

1 Unpublished report "De-risking: Global Impact and Unintended Consequences for Exclusion and Stability", provided to the FATF October 2014

2 http://www.worldbank.org/en/news/press-release/2015/11/20/world-bank-surveys-confirm-concerns-over-reduced-access-to-banking-services

3 See report of Financial Stability Board to the G20 on Correspondent Banking, 06 November 2015 http://www.fsb.org/wp-content/uploads/Correspondent-banking-report-to-G20-Summit.pdf

4 See independent report commissioned by the UK Financial Conduct Authority on 'Drivers & Impacts of Derisking' February 2016 https://www.fca.org.uk/static/documents/research/drivers-impacts-of-derisking.pdf

Since April, 2015, dialogue has been further enhanced through the examination of the impact of de-risking in AFI and G-24 member countries. Dedicated de-risking discussions have taken place during a range of the AFI meetings, including: 2015 Global Policy Forum, in Maputo, Mozambique (September 3-4); IMF and World Bank Meetings in Lima, October 7, 2015 and Washington DC April 13, 2016; and, Global Standards Working Group Meeting 7 – 9 June in Moscow. In parallel dialogue with a smaller group of impacted countries has been conducted and analysed and fed into this qualitative study.

FINDINGS: THE AFI AND G-24 QUALITATIVE STUDY

Since late August 2015 the AFI and G-24 qualitative study has engaged with a number of member countries to better understand their experiences and responses to the de-risking challenge. Discussions have so far taken place with public and private sector representatives from Pakistan, Nigeria, Ghana, Uganda, Kenya, Panama, Haiti, Peru, Philippines, Malaysia, Saudi Arabia, Bermuda, Lebanon, Libya, Hong Kong, Palestine, South Africa, Syria and Jamaica. The World Bank, IMF, FSB, Arab Monetary Fund (AMF) and Commonwealth Secretariat have further been consulted.

The qualitative study aims to complement the policy work and surveys the World Bank and other organisations have been conducting. It is intended that by drawing out developing countries' experiences and perspectives on the de-risking challenge this study will provide a basis for AFI and the G-24 to provide thought leadership on practical solutions to the challenge of de-risking. Understanding the views of smaller and impacted countries, together with what responses they have initiated at the local level has been seen to be of paramount importance. Interviews have been completed and findings are set out below:

SCALE OF DE-RISKING ISSUE

Responses indicate that the impact of, and concern surrounding, de-risking appears to vary considerably between specific remittance corridors, jurisdictions and local circumstance. Of those interviewed some reported only experiencing domestic issues limited to a small subset of customer groups, e.g. access to financial services for migrants (both documented and undocumented). In such instances lack of acceptable customer identification and verification of documentation, or conflicting local immigration legislation were identified as among the drivers fuelling a reduced access to banking services. At the other end of the spectrum a smaller number of respondents reported a much wider phenomenon whereby de-risking impact is having a notable effect across a broad subset of financial activities and relationships.

At the cross border level the most impacted services were deemed to include:

> correspondent banking withdrawal by global banks;

> closure of money remitter accounts;

> increased trade finance restrictions or associated costs; and

> decreased provision of services related to humanitarian activity.

In a small number of instances countries reported only being left with minimal levels of correspondent banking provision. In at least five reported country cases finance ministries had intervened with global banks to prevent complete withdrawal.

Central Bank Representative, Caribbean, August 2015:

"Three years ago all our main banks had active correspondent banking relationships, over the past 18 months we have seen a drastic decline resulting in one remaining relationship. Continuation of this relationship is now viewed as of systematic importance for the continuation of domestic trade and commerce".

Respondents further reported local in-country de-risking by domestic banks of certain customer and business types. These included domestic charities, remittance operators, migrants, politically exposed persons, students, and cash intensive small businesses. The scale of withdrawal appeared to vary significantly between each affected group and across jurisdictions.

DRIVERS OF DE-RISKING

As previous studies have reflected the drivers of de-risking are complex and appear to involve a convergence of issues that vary between corridors, business lines and impacted countries. The findings of the study identified that the drivers of de-risking differ depending on local circumstance i.e. country concerned, corridor or individual customer. The key drivers of de-risking were Risk and Uncertainty; Regulatory Environment - Cross Border and Local; Overly Stringent Local Application of AML/CFT Requirements; Cost of Compliance; Know Your Customer Requirements; and Reduced Risk Appetite for Higher Risk Situations.

RISK AND UNCERTAINTY

A general heightened awareness of risk and a lack of clarity over appropriate mitigation strategies were both reported as fuelling de-risking and reduced access to banking services. The uncertainty about exposure to risk and the resources needed to comply with AML/CFT compliance obligations were reported to have influenced the risk management approach of both global and domestic banks. Uncertainty was further fuelled by other factors such as variations in laws and regulations in some jurisdictions, poor implementation of international AML/CFT standards and a lack of capability among law enforcement to respond to sophisticated patterns of money laundering and terrorist financing.

The presence of international and unilateral sanctions was noted as a key driver of de-risking for those countries subject to such measures. A combination of the "strict liability" of such measures and the large fines paid for unilateral sanction violations were reported as having put banks in a position where they are so reluctant to deal with sanctioned countries, that dollar-denominated transactions permitted are regularly refused processing even when legal.

REGULATORY ENVIRONMENT - CROSS BORDER AND LOCAL

There has been enhanced effort to comply with multiple country regulator expectations. Some of which have encouraged a reduction of risk exposure. Global banks subject to regulatory intervention are often expected to review risk exposure, which in some instances has directly resulted in withdrawal from certain markets, countries or customer types.

Financial Regulator, Southeast Asian country, June 2016:

> "We were interviewed by the monitors of a European bank subject to a Deferred Prosecution Agreement and were astonished at their zero appetite for risk acceptance. The monitors demonstrate such low levels of risk tolerance de-risking will be the only acceptable action for those banks under such programmes".

Emerging regulatory requirements including structural reform; conduct; governance; capital; and liquidity were noted as radically reshaping the regulatory landscape. Such widespread restructuring has not happen in a vacuum: thus the critical inter-linkages between wider regulatory reforms and decisions on where and how banks operate need to be acknowledged.

East African Country representative, April 2016:

> "Our main trade finance arrangements were undertaken via a global bank with a large present in our country. That bank has taken the decision to sell its operations and reduce risk to our region."

There has also been confusion within commercial banks on acceptable application of the regulatory AML/CFT framework to the rapid extension of digital platforms, digital payments and technological advances in customer identification.

East African Private Sector Representative, August 2015:

> "We provide banking services to a major mobile phone platform payment provider. Their services target those who are traditionally unbanked. Our correspondent bank has indicated concern on this type of relationship; they suggest that regulators and law enforcement view this as being vulnerable to terrorist financing. We have spoken to a number of regulators across various countries and there seems little agreement on how we can address these FinTech type concerns."

OVERLY STRINGENT LOCAL APPLICATION OF AML/CFT REQUIREMENTS

Localised tightening of regulatory environments in developing economies either in response to recently introduced AML/CFT legislation; or as consequence of identified deficiencies in applying the FATF standards, was further noted as impacting the risk appetite of both local and global banks.

COST OF COMPLIANCE

Perceived 'costs of compliance' with managing 'higher' risk relationships was a significant influencing factor noted across the near proportion of cases - this was true for both domestic and global banks. Thereafter, jurisdictions that present heightened money laundering and terrorist financing risk are increasingly becoming commercially unattractive due to perceived cost of compliance issues.

Private Sector Representative, Middle East Region, August 2015

"We were told the costs and time associated with managing our correspondent relationship outweighed the benefits of retaining the relationship. We operate next to a 'high risk' jurisdiction and our correspondent indicated that the sanctions and terrorist financing concerns were just too great and would be too compliance costly."

KNOW YOUR CUSTOMER (KYC) REQUIREMENTS

There have been a number of challenges with implementation of KYC requirements. In one situation a survey conducted within a member country of 10,000 individuals showed 17% of respondents struggled to meet banks' customer identification requirements. In the case of migrants, insufficient customer identification appeared a central feature in their ability to access financial services. This applied across a range of country and income types.

African Central Bank Representative, August 2015:

"There are many undocumented migrants that either have no identification documents or the documents they do have are insufficient for know your customer purposes."

Asian Central Bank Representative, August 2015

"We have nationals who are illegal migrants in other countries, they do not have relevant documents and resort to sending cash home often by unregulated channels."

REDUCED RISK APPETITE FOR HIGHER RISK COUNTRY SITUATIONS

Reduced risk appetite of banks, for exposure to certain 'higher' risk situations, i.e. countries subject directly to sanctions, or located next to a sanctioned jurisdiction. Conflict/post-conflict situations and fragile environments with lower capacity regulatory and legal frameworks were also observed as being particularly vulnerable to 'de-risking'.

Middle Eastern Central Bank Representative, August 2015

"We see widespread closure by international banks of legitimate accounts due to our country being flagged as a high risk sanctions concern."

Respondents further observed that certain customer types chose to 'self de-risk', i.e. they have not sought to open banks accounts due to lack of customer identification. Undocumented migrants were the most notable example; others included small cash business and unregulated remittance providers.

IMPACT OF DE-RISKING

Although there were exceptions, the impact of domestic de-risking appeared far less prominent in countries that were classified as having a more mature AML/CFT regime. Cash based jurisdictions reported particular challenges in applying international AML/CFT standards in a proportionate manner so as not to undermine access to banking services.

There has also been a general acknowledgement across both the public and private sector that disproportionate de-risking could add to overall AML/CFT risk rather than mitigate it. Respondents indicated that higher levels of de-risking can logically lead to an increase in unregulated service providers. This is especially so within the remittance space, where reduced competition within the market place may be seen to increases both cost and risk.

A number of respondents flagged the closure of small and/or fragile higher risk economies from the international banking system as being of significant concern.

Jurisdictions facing limited access to correspondent banking, formalised remittances and other types of financial services noted a ripple effect that spanned the entire local economy. A further facet of large international banks withdrawing from local markets was the reduction of related investment opportunities, and increased charges by those entities remaining (particularly in the context of trade finance).

Conversely, in a small number of instances, improving compliance standards and rebalancing regulation was noted as a positive outcome arising from de-risking, or the threat of de-risking. In a handful of cases local regulators were reported as having been prompted to respond to de-risking concerns by either: issuing revised regulatory guidance; or having undertaken concerted industry dialogue to recalibrate the compliance environment. In addition, local banks with deemed compliance failings (and under threat of correspondent banking withdrawal), were also noted as having implemented improved compliance frameworks to ensure continued access to correspondent banking services.

A substantial challenge that is now emerging is how to promote 're-risking' by banks. Where relationships have been closed due to perceived risk factors and/or compliance costs, the question is: what action can be taken to voluntarily encourage the re-opening of such accounts? There have been notable success stories across the G-24 and AFI membership in overcoming KYC challenges for low income individuals. These have generally involved utilisation of evolving technologies to support new methods of customer identification, and ease of access to non-branch banking, i.e. mobile phone banking. However, this success has not translated to scenarios involving specific higher risk groups, especially those located in countries perceived as having higher risk of money laundering or terrorist financing. In these situations respondents reported that overcoming the re-risking challenge appears some way off.

PRACTICAL SOLUTIONS - AREAS IDENTIFIED FOR G-24/AFI POLICY DIALOGUE

To develop practical solutions and to facilitate discussions between AFI and G-24 members and key stakeholders, a number of provisional areas for further consideration have been identified. These are summarised below:

ENSURING THE MOST IMPACTED COUNTRIES HAVE A VOICE

It was of paramount importance to all stakeholders that smaller less developed and perceived higher risk countries were not unduly impacted by reduced access to financial services. Finding ways to ensure impacted countries can pro-actively engage in international thought leadership was also found to be a necessary component for identifying sustainable solutions.

An immediate proposal could be for the FATF to ensure a sufficient number of impacted countries are included within relevant work streams, for example on correspondent banking. The FATF should further engage impacted countries to inform the application of the risk-based approached so as to create a comprehensive and measureable framework so as to avoid de-risking.

GLOBAL DIALOGUE ON CONSTRUCTING A SUPPORTIVE REGULATORY ENVIRONMENT

Overcoming current concerns surrounding access to financial services will require international dialogue and related action by both those impacted and those ‘impacting’. One viable step may include developing ‘corridor’ specific forums that involve relevant government, regulators (including home state regulators from those countries whose banks are de-risking), as a mechanism to advance concerted and focused thinking.

The strategic dialogue required could consider the following practical solutions:

> Set up of a working committee comprising of commercial banks, forex bureaus/ money remitters, and the Central Bank to address concerns of banks and devise practical solutions.

> Foster information sharing among the various entities by emphasising the importance of open dialogue, communication and coordination between home and host regulators, and banks/financial institutions concerned.

> Encourage stakeholder engagement when formulating standards/policies to ensure buy-in.

> ake into consideration the peculiar and unique environment in the various jurisdictions.

> Promote timely and accurate feedback in regard to assessments performed by Standard Setting Bodies.

> Discuss and understand the critical concerns or issues, and jointly develop feasible solutions and best practises.

East African Government Representative, June 2016:

“Without prior warning, regulators from another country took action against one of our banks for AML/CFT failings. This caused a much wider impact and consequent de-risking of other banks in our country. There needs to be much greater cross border liaison between competent authorities prior to action being taken.”

Standard setting bodies and national regulators should work together to ensure more international consistency in respect of financial crime legislation, regulatory requirements and supervision to enable greater transparency and consistency in relation to banks’ application of the risk based approach

OVERCOMING RISK-REWARD DILEMMA

It is apparent that for commercial banks the costs and perceived risks of maintaining certain types of relationships, (i.e. correspondent banking and remittance accounts in jurisdictions subject to sanctions or of higher money laundering and terrorist financing concern), can far outweigh the benefits of retaining such relationships. Finding sustainable cost-effective solutions to overcome the dichotomy that certain types of relationships, whilst not critical for banks may be critical for countries, needs greater analysis.

Specific recommendations include:

> Identify and manage risks inherent in forex bureaus/ money remitters, as well as not-for profit organisations vulnerable to being used for terrorist financing.

> Providing ‘enabling’ guidance that identifies how to manage high risks scenarios without withdrawing from such relationships.

> Encourage dialogue and sharing of information between banks, forex bureaus, money remitters and not-for profit organisations.

> Build capacity to strengthen supervision and regulation of most at risk entities.

> Regulatory intervention and assurance on the adequacy of AML/CFT compliance.

> Dialogue and close working relationships between various stakeholders, i.e. commercial banks, the regulator, forex bureaus/money remitters, not-for profit organisations, etc.

> Information sharing among the various entities.

> Consider the establishment of a central data base which commercial banks can use to verify information provided by the forex bureaus/money remitters.
> Encourage the sharing of information between the various entities to ensure transparency.
> Establishing strong regulatory regimes to ensure that forex bureaus /money remitters comply with AML/CFT requirements.
> Capacity building to ensure that entities (forex bureaus, money remitters, not-for profit organisations) have a good understanding of the AML/CFT requirements.
> Guidelines to provide expectation on differentiation between risk arising from the business and customers. While cross border wire transfers are considered as having higher inherent risk, the nature or profile of customers of remittance companies should also be considered. Remittances from individual foreign workers with established employment and source of fund generally pose lower risk.
> Issuance of clear guidance on the scope of UNSC and unilateral sanctions and the expectations from countries/institutions so that sanctions apply to the extent of proscribed (sanctioned) goods and entities. Such guidance should clearly set out the importance of retaining permitted activity and thus avoiding the whole country being cut off from international financial system.

It was noted that only inserting minor policy 'tweaks' was unlikely to alter the fundamental risk-reward dichotomy: as such standard setters, regulators and impacted counties may need to undertake a more strategic review on how best to move forwards.

BROADER UNDERSTANDING OF HOW IMPACTED COUNTRIES ADDRESS DE-RISKING CONCERNS

As more countries come forward to articulate their experiences of managing de-risking, it provides an opportunity to share know-how on what actions have been successful in stemming the tide of de-risking. A forum that promotes dialogue across impacted countries to share knowledge and solution-based thinking may therefore be beneficial.

This could be achieved by establishing a working group at an international forum which brings together various participants in the financial industry. A probable forum could be Sibos the annual conference, exhibition and networking event organised by SWIFT for the financial industry. Sibos brings together business leaders, decision makers and topic experts from a range of financial institutions, market infrastructures, multinational corporations and technology partners.

SUPPORTING INNOVATION

Ensuring evolving technologies are not unduly impacted by an overly stringent application of the AML/CFT framework will be crucial in supporting the growth of digital payments, and new forms of customer identification technology - specifically in those countries most susceptible to de-risking. Creating an enabling environment whereby latest technological responses are viewed as part of the 'solution' will be a necessary facet in moving forwards.

Examples include:

> Use of digital financial services (e.g. use of mobile financial services for cross border remittances) and customer identification technology (use of biometrics).
> Encourage the use of cloud computing for enabling convenient, on-demand network access to a shared pool of configurable computing resources such as networks, servers, storage, applications and services.
> Consideration of new peer-to-peer payment mechanisms such as blockchain.

South East Asia Central Bank Representative, June 2016: "FinTech is an evolving area that could help with many of the challenges of banks withdrawing. We need to better understand the risk and opportunities that digital platforms and wider innovations offer. We are being constrained by outdated regulation instead of looking to future opportunities and risk management techniques."

GLOBAL POLICY WORK/ GUIDELINES ADVANCED TO CLARIFY CROSS-BORDER REGULATORY EXPECTATIONS

Where a bank has made a decision to terminate systemically important business relationships due to AML/CFT or related compliance concerns. In cases where withdrawal is probable, (i.e. a major global bank withdrawing from an entire sector or higher risk country), dialogue should be advanced between the relevant national, global regulators, and concerned banks. The aim should be to seek a managed withdrawal to limit financial instability, inclusion and development consequences.

This is possible by:

> Providing overarching principles to banks when terminating accounts, focusing on transparency of the evaluation and decision process as well as guidelines to smoothen and reduce impact of closure.
> The service provider should be transparent on the criteria or factors considered in its final decision.
> When the closure has systemic impact, there should be guidelines to smoothen the impact of closure to the overall economy or beneficiaries of the affected jurisdiction.

IMPACTED COUNTRIES TO IMPROVE STANDARDS/ PROVIDE RISK INFORMATION AND REASSURANCE

Providing reassurances to banks on the AML/CFT regimes that are in place within impacted countries, may be an important tool in gaining confidence.

The types of information that banks may find helpful include:

> Country assessments clearly identifying risks relating to AML/CFT.

> Public statements made about assessed countries to be specific in regard to the extent of non-compliance of any set standards.

> Provision of home/host country regulatory statements and guidance concerning expected risk-management practices for banks exposed to countries deemed being non-compliant or posing specific AML/CFT risk: this should specifically address roles of correspondent and respondent banks exposed to such situations

Impacted countries precisely articulating planned remedial actions and to make these available to the banking sector i.e. what steps will be taken to ensure compliance with FATF and other Standard Setting Bodies recommendations and requirements in regard to AML/CFT.

GUIDANCE AND POLICY FOR IDENTIFYING/MANAGING RISK IN CORRESPONDENT BANKING RELATIONSHIPS

In view of the importance of correspondent banking and the keen interest of central banks to ensure its continued safe and efficient functioning a special forum of impacted countries should be established to advance the following:

> Examine the use of KYC utilities and identify whether such developments may be a vehicle to overcome 'questionnaire overload'. This is especially important given many international banks are now implementing their own questionnaire approach to assessing and managing risk of correspondent banking relationships.

> Identify the most appropriate data fields across the range of different KYC utilities that could assist in managing higher risk correspondent banking situations.

> Identify key themes that should be included in forthcoming work being undertaken by Standard Setters, for example the Financial Action Task Force on correspondent banking.

> A guidance note issued jointly by regulators from impacted/impacting countries that sets out case study examples in how financial institutions can meet their correspondent banking due diligence obligations in higher risk scenarios.

PUTTING IN PLACE CUSTOMER DUE DILIGENCE (CDD) REQUIREMENTS AND KYC UTILITIES

CDD requirements that foster universal access and usage of financial services have a place to play in 'stemming the tide of de-risking', as does implementation of KYC utilities. KYC utilities are recommended to comprise of a central database which can be accessed by correspondent banks to verify data provided by respondent banks. The respondent banks would then be able to periodically update these utilities as and when necessary (examples of KYC utilities include Bankers Almanac, SWIFT KYC Registry, Thomson, Reuters, Accelus).

Benefits of KYC Utilities:

> One stop centre for data that can be accessed by authorised entities (both correspondent and respondent banks).

> Utilities would promote standardisation of data provided by respondent banks with standardised data collection templates.

> Speed and accuracy of correspondent banks to verify data, as data would be centralised.

> Cost reductions in verifying data as correspondent banks would have a single source of reference as opposed to having to access various databases, (which may require multiple subscriptions), to verify respondent's banks data.

The use of KYC utilities could be promoted through the following:

> Encouraging entities (respondent banks and potentially forex bureaus and money remitters) to join/subscribe to KYC utilities.

> Ensuring that entities (i.e. respondent banks) provide KYC utilities up-to-date accurate data.

> Ensure that privacy laws don't hinder the sharing of information held by the utilities.

> Provide clearer guidelines on correspondent banking and remittances. Specifically, expectations on the respective responsibilities of the correspondent and respondent banks with respect to customer identification, due diligence and transaction monitoring, should be clearly defined and described. For customer due diligence, there should be clear cut provision on the extent of scope of responsibility, i.e. correspondent banks are not required to conduct KYCC. In terms of transaction monitoring, minimum expectations for correspondent banking and remittance transactions should be defined, such as sanction screening, review of transactions, etc.

In addition to the general promotion of Legal Entity Identifier (LEI) in correspondent banking it was noted that relevant stakeholders may consider specifically promoting the use of the LEI for all banks involved in correspondent banking as a means of identification which should be provided in KYC utilities and information sharing arrangements. Authorities and relevant stakeholders (e.g. the Wolfsburg Group) may consider promoting Business Identification Code (BIC) to LEI mapping facilities which allow for an accessible mapping of routing information available in the payment message to the relevant LEI.

Central repositories of beneficial ownership information were also raised as a mechanism to un-wrap information of legal persons and could be linked with emerging KYC utilities.

NEXT STEPS TO ENSURE RE-RISKING

Stemming the tide of de-risking will clearly require concerted action and dialogue among stakeholders. Developing and developed country regulators, banks and other private sector players, as well as the global standard setting bodies, all have a part to play. The G-24 and AFI will continue to work with international partners to enhance a better understanding on the scale and nature of de-risking concerns among impacted countries, and work to facilitate practical solutions based on recommendations from this special report.

Work will continue on the following:

> Promoting product understanding to overcome AML/CFT regulatory concerns - Building on the experience of G-24 and AFI members, actively encourage the sharing of examples in how new technologies can both advance financial inclusion and be compatible with the AML/CFT agenda.

> Producing a roadmap defining implementation priorities - based on benefit to cost considerations identified in this study.

> Advancing dialogue and peer learning on regulatory approaches to emerging FinTech which take account of the opportunities and risks for both financial inclusion and AML/CFT compliance presented by technological innovation;

> Conducting further specific analysis of the impact of de-risking on vulnerable groups such as forcibly displaced persons (FDPs), and the potential of technological innovations to ensure such groups retain access to formal financial services.

> Working with key stakeholders and international partners – so as to ensure the G-24 and AFI dialogue continues to bring added value and thought leadership.

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