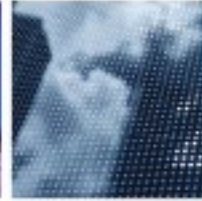


De-Risking

How is it impacting correspondent banking in the region and what are the solutions?



Summary

The Act of De-risking

Impact on the Caribbean

How Can We Improve the Situation

Conclusion



Summary

When Did De-Risking Begin?

- Origins date back to 2002 and the passage of the Patriot Act
- Treasury Department establishment of the Public/Private Sector Dialogues
- Subsequent regulations: Dodd Frank, FATCA, Basel III
- Operation “Choke Point”
- Shifting role of banks: Regulator, Law Enforcement, Tax Authority

What you have to keep in mind: “It’s not you, it’s me!”

- There has been an increase in U.S. regulatory expectations resulting in greater responsibility for the banks;
- Money laundering, fraud, and corruption are the principal concerns;
- The estimated amount of money laundered globally in one year is 2% - 5% of global GDP, or \$2.5 - \$3.7 trillion in current US dollars.
- The primary consequence has been an increase in regulatory and compliance costs pushing unprofitable accounts out of the system;
- Our industry needs a standardization of the rules relating to a Risk-Based Approach, and in turn, a more consistent global application.



THE ACT OF DE-RISKING

- The expectations have created three regulators in the region: the in-country one, the U.S. and the correspondent bank:
- The resources and essential tools, such as specialized executives and bigger operating budgets, are scarce, costly or unavailable;
- The Public Sector (regulators and law enforcement) do not have the resources therefore responsibilities have been delegated to Private Sector;
- The global cost of compliance is estimated at \$300 billion annually;
- Banks have been fined over \$320 billion since 2008;
- ***Transparency of transactions*** – “*KYCC or Know Your Customer’s Customer*”;

- There is a perception that the Caribbean nations have not done enough in terms of money laundering, corruption and terrorist financing;
- The perception of correspondent banking as a high risk line of business;
- Recent expansion of OFAC sanctions beyond narcotics trafficking;
- Basel III reforms and regulations have also created new risks and unintended consequences;
- The cost/benefit analysis of a correspondent relationship is of great importance given that banks are seeking products with higher margins. If the relationship is not profitable it must be closed.



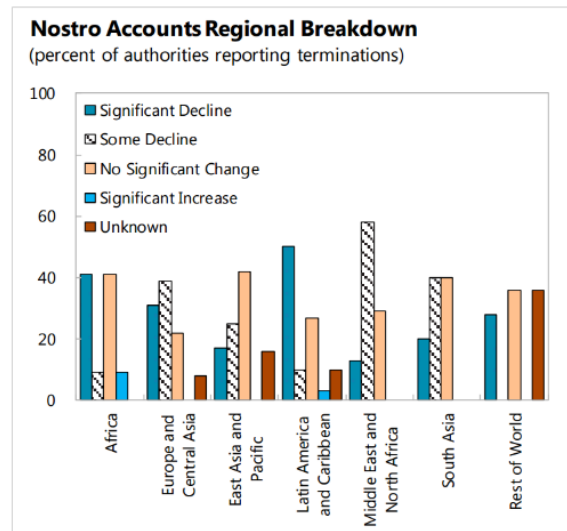
IMPACT ON THE CARIBBEAN



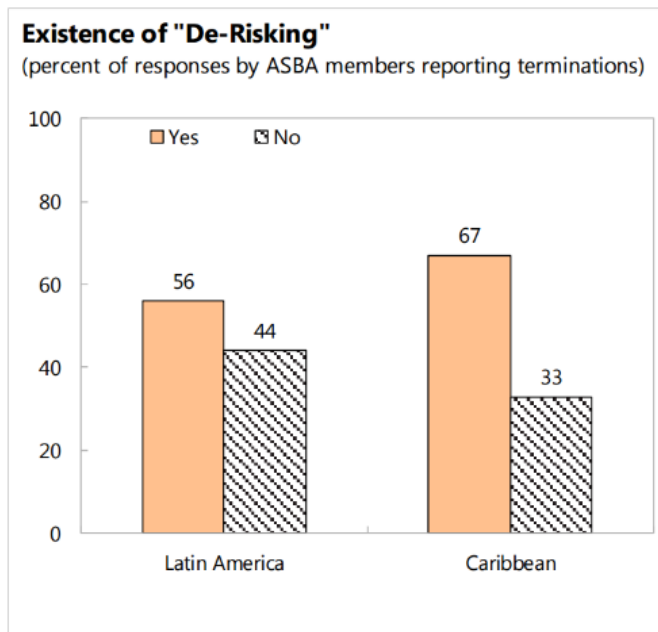
- A victim of this deceleration is correspondent banking itself, as the large financial institutions have distanced themselves from the scene;
- The large international banks are freeing themselves from relationships with 2nd and 3rd tier foreign institutions to relieve themselves from the burden of having to comply with KYC regulations. The smaller and medium size banks are no longer absorbing this excess;
- Financial institutions are obligated to seek alternative sources of financing, and payments/remittances are less transparent;
- Inter-regional De-Risking to avoid the possible loss of U.S. correspondent relationships;
- The demand from the correspondent bank to exclude high risk customers (MSBs, casinos, marijuana businesses) from the client base;

The Withdrawal of Correspondent Banking Relationships

Authorities indicated that there has been a significant decline in the Americas, Africa, Europe, and Central Asia,...

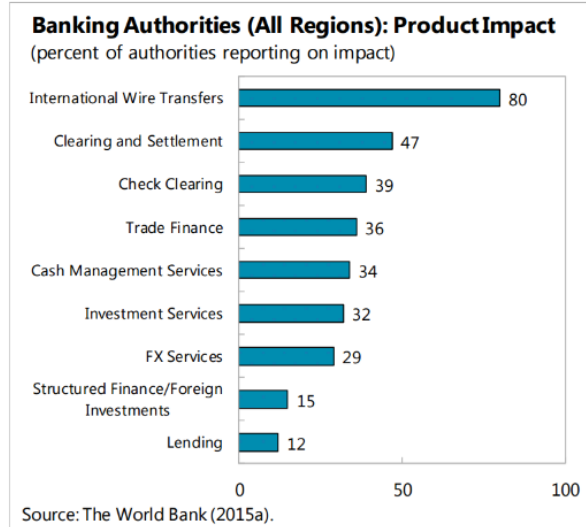


...with the Caribbean being particularly affected.



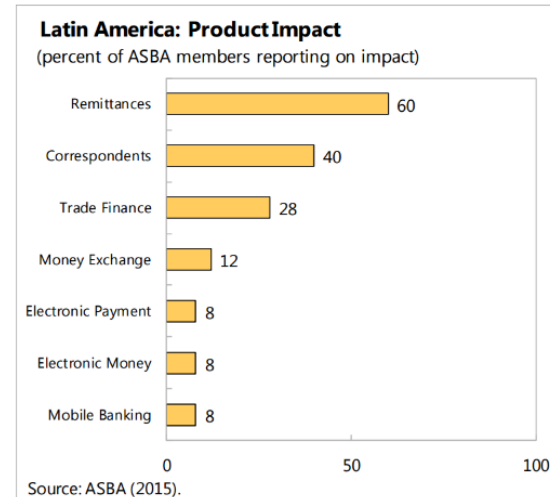
The Consequences

While 80 percent of authorities have indicated that U.S. dollar wire transfers have been affected...



Electronic transfers in US dollars, remittances, trade finance, have been particularly affected.

...in the Americas, 60 percent of ASBA members report that remittances have been affected.





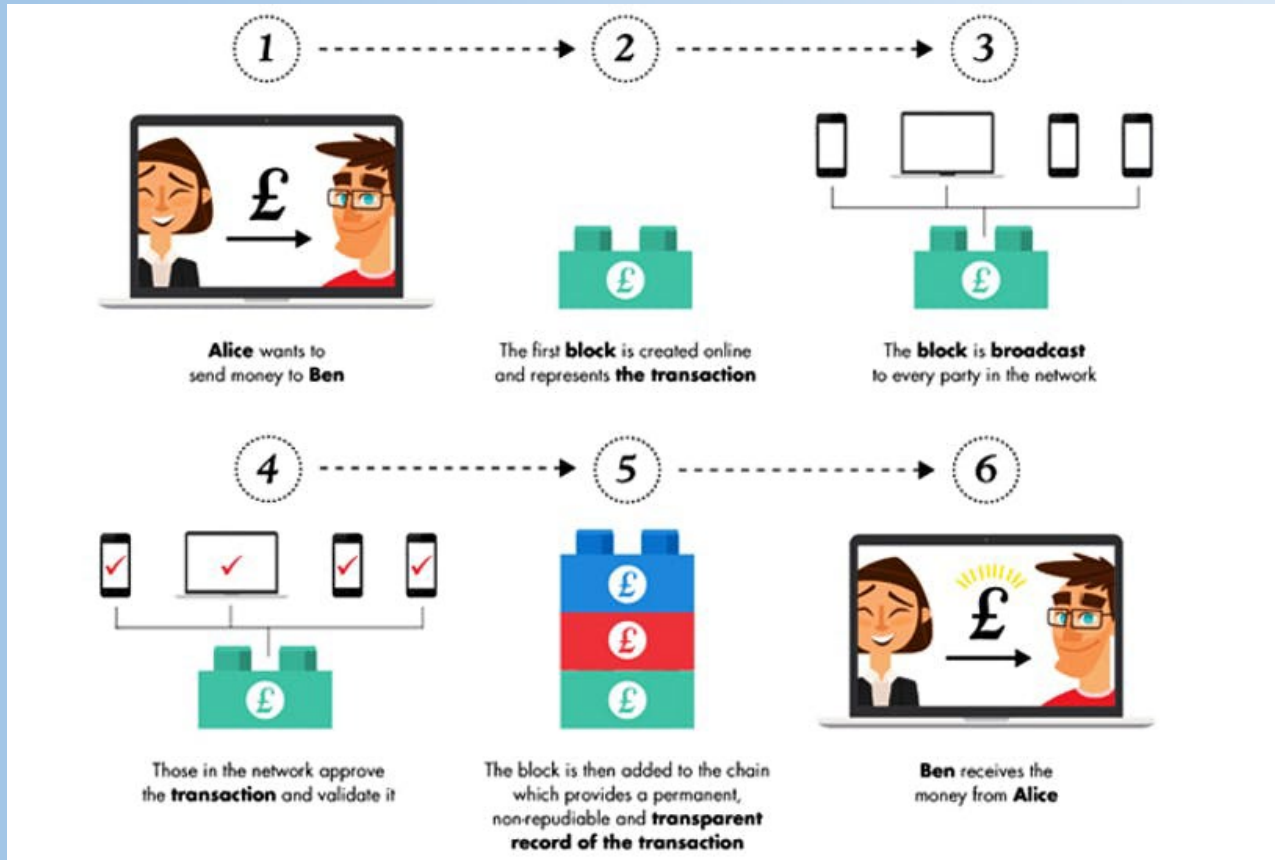
HOW CAN WE IMPROVE THE SITUATION?



What is needed?

- A balanced regulatory focus (there is no global, “one-size fits all” regulatory scheme or solution);
- Culture of compliance:
- Information sharing (data and analytics) amongst regulators, law enforcement and the industry;
- Refocus priorities;
- Public/Private partnerships and pilot projects;
- Effective implementation of regulations;
- More involvement from the non-financial private sector;
- Education and training both of bankers and regulators;

- Providers of traditional banking services such as payments, loans and wealth management;
- More agile and less costly;
- Not regulated like financial institutions;
- They rely on bank partners;
- Virtual currency (Bitcoin)/blockchain.



The Apple Pay logo consists of the black silhouette of an Apple logo followed by the word "Pay" in a black, sans-serif font.The Venmo logo is the word "venmo" written in a bold, lowercase, blue, sans-serif font.The PayPal logo features a stylized "P" icon on the left, composed of two overlapping shapes in dark blue and light blue. To the right of the icon, the word "PayPal" is written in a bold, blue, sans-serif font.

CIRCLE

The Ripio logo is the word "ripió" written in a bold, lowercase, blue, sans-serif font. The letter "i" has a small blue square above it, and the letter "o" has a small blue square above it.





Betterment

dvidendo



FutureAdvisor

The LendingClub logo features a red grid icon on the left, composed of a 4x4 grid of squares with some missing. To the right of the grid, the words "LendingClub" are written in a bold, dark blue, sans-serif font.

Kabbage



- R3 – consortium of global banks working together to develop commercial applications using the technology that is the nucleus of blockchain.



- Bank of America Merrill Lynch, HSBC, Intel, Banco Bradesco, Itaü Unibanco, Natixis, Barclays, UBS and Wells Fargo.

- Payments – Zelle The Zelle logo features the word 'zelle' in a bold, purple, lowercase, sans-serif font. A small 'SM' trademark symbol is located to the upper right of the 'e'. The word 'Zelle' is written in a smaller, blue, sans-serif font to the left of the 'zelle' logo.

- Trade finance – ICC, Wells Fargo, Barclays;
- Mobile - everyone





CONCLUSION



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