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WITHDRAWAL FROM CORRESPONDENT BANKING

WHERE, WHY, AND WHAT TO DO ABOUT IT

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Finance and Markets Global Practice, The World Bank Group

Withdrawal from Correspondent Banking; Where, Why, and What to Do About It
November 2015

Acknowledgments

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Executive Summary

1. Background

ES.1. Correspondent banking services are essential to enabling companies and individuals to transact internationally and make cross-border payments. Recently there have been indications that certain large international banks have started terminating or severely limiting their correspondent banking relationships with smaller local and regional banks from jurisdictions around the world. To find out whether this is indeed happening, the World Bank, with support from the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI), surveyed banking authorities and banks worldwide to examine the extent of withdrawal from correspondent banking, its drivers, and its implications for financial exclusion/inclusion. In total, 110 banking authorities, 20 large banks, and 170 smaller local and regional banks participated in this exercise.

ES.2. This is not a comprehensive, quantitative survey that presents an exhaustive overview of the status of correspondent banking globally in 2015. While significant – and heterogeneous – economic effects may result from the withdrawal of CBR, a quantitative discussion of those effects was outside the scope of this report. It addresses national and international AML/CFT policy makers, and those involved in implementing AML/CFT in banks and remittance service providers.

2. Findings

ES.3. Roughly half the banking authorities surveyed and slightly more local/regional banks indicated they were experiencing a decline in correspondent banking relationships (CBRs). For large international banks the figures are significantly higher at 75 percent. The Caribbean seems to be the region most severely affected.

ES.4. The products and services identified as being most affected by the withdrawal of correspondent banking are: (check) clearing and settlement, cash management services, international wire transfers and, for banking authorities and local/regional banks, trade finance. The ability to conduct foreign currency denominated capital or current account transactions in US dollars (USD) has been most significantly affected followed by Euro, pound sterling (GBP), and Canadian dollar (CAD) denominated transactions. A large majority of respondent banking authorities indicated that money transfer operators and other remittance companies are most affected, followed by small and medium domestic banks and small and medium exporters. They also specified other types of clients/client segments that have been affected, including retail customers, international business companies, and e-gaming/gambling.

ES.5. Though there was some misunderstanding of the question, information from banking authorities and large banks on the obligation to conduct due diligence on the customer's customer (so-called "know your customer's customer" or "KYCC"- in this case the customer of the respondent bank) - showed that large banks do not consider themselves to be under an explicit legal KYCC obligation, but believe that under certain circumstances a risk based approach might require them to conduct it anyway. Uncertainty regarding regulatory obligations or expectations leads them to err on the side of caution.

ES.6. The ability of financial institutions in affected jurisdictions to find alternative correspondent banks varied, but the majority indicated they were able so far to find replacements. Sometimes however, the time and 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. It is unclear whether the withdrawal of correspondent banking services has resulted in banks largely finding alternatives in so-called nested accounts - but certain authorities expressed concerns about that.

ES.7. The drivers of the decline in foreign CBRs can be divided into two groups: one category of causes that are more business related, explaining the decision to terminate a foreign CBR in purely economic terms, and one more regulatory and risk related, explaining the decision to sever ties with certain actors as based on the level of Money Laundering/Financing of Terrorism (ML/FT) risk of the counterpart deemed unmanageable, concerns that one might fall foul of AML/CFT, international/regional sanctions—or other legislation or regulations. The two drivers are related though, since higher risk can result in greater cost. While local/regional banks put more of an emphasis on the economic/business rationale for the decline, banking authorities and large banks emphasized both regulatory AML/CFT and business-related concerns.

3. Conclusions and recommendations

ES.8. The concern is that while large banks might be cleaning up their books and terminating relationships with higher risk customers, the system as a whole ends up as it were pushing that risk to channels that are less transparent, or excluding legitimate customers, and thus actually increasing overall risk. The extent that this might actually be taking place is unclear and was not within the scope of the current project.

ES.9. The withdrawal from foreign CBRs is a complex and manifold phenomenon. Some of the drivers are not susceptible to policy tweaks. A bank is completely justified not doing business because of business rationale, compliance costs, or excessive risk. There are risks that should not be taken.

ES.10. The issue to consider is whether in other cases—particularly where applicable rules or facts and circumstances are unclear—but there is in principle a business and risk-related rationale for engagement, there is something that authorities or the banks themselves could do to encourage the establishment of a correspondent banking relationship. It is important to emphasize that this is a joint public-private responsibility that needs to be dealt with in partnership. Only such an approach, with efforts by all actors, can help reverse the decline experienced in certain parts of the world. We believe the following actions could be useful.

a. **Supervisors should ensure banks follow a risk-based approach**

ES.11. An unequivocal statement from national supervisors that there will not be a zero tolerance approach for failures to detect money laundering and setting out the tenets for a reasonable risk assessment (to the extent supervisors have not already done so) for establishing correspondent banking relationships can provide banks with the comfort they say they are lacking at this moment. This also implies that the standard setter and the national AML/CFT policy makers clarify the acceptable level of risk tolerance.

b. **Supervisors and other authorities should ensure the effective implementation of international AML/CFT standards**

ES.12. Concerns about the effective implementation of AML/CFT obligations by countries and jurisdictions featured prominently among the reasons large banks are withdrawing from correspondent banking relationships—despite significant on-going work by many countries to improve their AML/CFT regimes. All jurisdictions must therefore ensure that the legal and regulatory AML/CFT framework is in place and that their financial institutions are being effectively supervised for risk-based compliance with those obligations. The World Bank stands ready to assist them. In addition, supervisors should coordinate to clarify regulatory expectations and facilitate international exchange of information.

ES.13. Respondent banks seeking to establish or maintain correspondent banking relationships should improve their AML/CFT internal controls to reduce their risk profile.

c. **Supervisors should provide clarity on the extent of obligations to conduct due diligence on the customers of the respondent banks**

ES.14. Along those same lines, supervisors should provide detailed guidance on the extent to which, or the circumstances under which, banks should conduct due diligence on the customers of a respondent bank, the so-called "know-your-customer's-customer" obligation. In other words, supervisors should set out under what conditions it is incumbent upon a correspondent bank to go beyond conducting due diligence on the respondent bank. If the supervisor does not consider KYCC ever to apply to its institutions, then it should say so clearly- leaving no room for misinterpretation or misunderstanding.

d. **Improve the information position of correspondent banks**

ES.15. Banks should use technical tools, notably KYC utilities, to limit information challenges as an effective means to reduce the burden of compliance with KYC procedures and consider the use of the Legal Entity Identifier for all banks involved in correspondent banking as recommended in a CPMI report published for consultation on October 6, 2015.

ES.16. When establishing a relationship, a correspondent should consider gathering information from the supervisor of a prospective respondent. To assist a correspondent bank in understanding country risk context it is recommended that countries publish their national risk assessment in order to demonstrate their commitment to AML/CFT and to inform outsiders of the risks they face and how they intend to address them. The World Bank has developed a capacity-building tool for conducting a national risk assessment and stands ready to assist countries in this process.

e. **Correspondent banks should consider respondent's interests when deciding to terminate a foreign CBR**

ES.17. Large banks should consider placing limits or trial periods instead of terminating relationships, or give a longer notice period. Correspondent banks should consider placing appropriate credit and other limits/conditions on their client banks, rather than terminating the relationships. They may also consider trial periods. Even when banks have an existing correspondent banking relationship to which they can shift their business, banks need time to arrange for an increase in credit and the amount of transactions and such that the existing CBR is able and willing to provide. Therefore correspondent banks are encouraged to extend their notice period to at least three months—preferably more, and could during that period use some of the risk management tools described below.

ES.18. Correspondent banks should be transparent on their reason for terminating a relationship. The reasons for termination of a correspondent banking relationship are not always made clear to respondent banks, making it hard for them to understand the underlying reasons and how to improve the situation. If correspondent banks are more transparent about the reasons for terminating a correspondent banking relationship, this will help smaller banks address possible concerns on AML/CFT issues if that was among the basis for terminating the relationship.

f. **Authorities should monitor the status of correspondent banking in their jurisdiction**

ES.19. Finally, it would improve the overall ability of governments and private actors to take action if jurisdictions were to more systematically gather information on the status of foreign CBRs. The surveys overall met with a positive response but not all jurisdictions responded, and among the respondents, a not insignificant number indicated that they lacked systematic data to complete the survey. Authorities and financial institutions that do not already do so, should consider taking a proactive approach in communicating with one another to monitor foreign CBR related developments in their own jurisdiction and jurisdictions of their CBR counterparts, as well as developments at the regional and global levels. This holds especially true for smaller jurisdictions, with fewer and smaller institutions, which appear to be most susceptible to trends in CBRs.

I. Introduction

1. The international payment system relies heavily on foreign correspondent banking. Generally speaking correspondent banking is about the payment services provided by one bank to another bank. The Committee on Payment and Market Infrastructures (CPMI) refers to correspondent banking as "an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks."[1] More specifically, the Wolfsberg group of banks defines correspondent banking as "the provision of a current or other liability account, and related services, to another financial institution, including affiliates, used for the *execution of third party payments and trade finance,* as well as its own cash clearing, liquidity management and short-term borrowing or investment needs in a particular currency."[2]

2. For some time now, stories and anecdotes have been circulating in media and international policy fora that large international banks (predominantly US/Europe/Canada based) are terminating or severely limiting their correspondent banking relationships with smaller local/regional banks from jurisdictions around the world. Smaller banks are particularly dependent on such relationships to be able to offer payment and clearing services in foreign currencies (*i.e.* USD/EUR/GBP/CAD). This development is considered by many to be part of an apparent "de-risking" trend, according to which financial institutions are limiting their exposure to the perceived risk posed certain classes of customers or partners.

3. The "risk" in "de-risking" is usually used in reference to the concern that the customer or partner could pose a higher than average risk for money laundering or terrorism financing, or that processing transactions for them might entail a breach of sanctions regulations. However, it is not always evident that the withdrawal from correspondent banking is driven by risk-related concerns—and therefore whether "de-risking" is the most suitable term to describe it.

4. The Financial Action Task Force (FATF), the international standard setter on anti-money laundering, defines de-risking as: "the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk (…). De-risking can be the result of various drivers, such as concerns about profitability, prudential requirements, anxiety after the global financial crisis, and reputational risk."[3]

5. In order to explore the basis for these stories and provide concrete evidence of the withdrawal from correspondent banking services and the factors driving it, the Financial Stability Board (FSB) in March 2015 asked the World Bank "to examine the extent of withdrawal from correspondent banking and its implications for financial exclusion/inclusion." This report is the result of that examination, and attempts to provide some clarity on the extent of the withdrawal from correspondent banking services, the services particularly affected and the possible knock-on effect for the clients of the banks whose relationships are being terminated or restricted, and the reasons for its occurrence.

6. As implied in the FSB request, the crucial question is also to determine whether the final outcome of the withdrawal from correspondent banking services, leaves certain categories of legitimate

1. See "A glossary of terms used in payments and settlement systems", p16, available at http://www.bis.org/cpmi/glossary_030301.pdf.
2. See "Wolfsberg Anti-Money Laundering Principles for Correspondent Banking" p1 available at http://www.wolfsberg-principles.com/pdf/home/Wolfsberg-Correspondent-Banking-Principles-2014.pdf. Italics added for emphasis.
3. See "FATF clarifies risk-based approach: case by case, not wholesale de-risking" available at http://www.fatf-gafi.org/publications/fatfgeneral/documents/rba-and-de-risking.html.

customers—whether defined by reference to the sector in which they are active or the geographic area where they are based—without access to financial services. Access to finance *per se* is not the only concern. One also needs to consider the cost of maintaining access and the transparency of the financial flows involved: e.g. if a big international bank A terminates its relationship with a small regional bank B, but B subsequently establishes another relationship, is there a risk that the scrutiny of the funds handled by B will be lower because the institution willing to do business with B applies lower standards—or because the institution that ultimately processes payments for B is not aware that B is its ultimate customer? This is where the problem of so-called nested accounts arises. In addition there may be an increase in cost due to lack of competition and a concentration of providers.

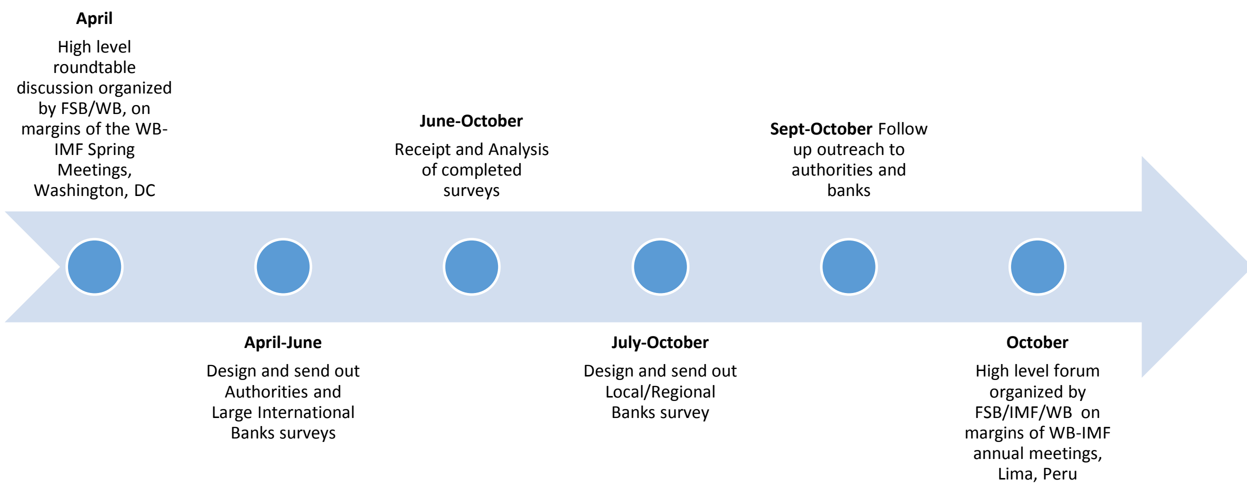
II. Method

7. The main data gathering for this report took place from April through October 2015. The data and information are drawn primarily from three sources:

- Surveys conducted under the auspices of the FSB, CPMI and the World Bank Group of banking authorities; large international banks; and local/regional banks;
- High level fora with top officials of central banks and other banking authorities and representatives of large international and local/regional banks; and
- Follow-up discussions by the project team with authorities and banks.

The timeline for the project is provided in the Figure 1. A detailed description of the method followed is contained in Annex 1.

Figure 1: Timeline of Data Gathering (2015)



8. Special attention was paid to a regulatory issue which has become especially significant in the international debate—namely the topic of "knowing your customer's customer" (KYCC). The extent to which a correspondent bank is legally required to conduct due diligence on the customer of the respondent institution and under which circumstances and to what purpose—and the costs incurred in having to carry out such measures, is one of the contentious issues in the debate surrounding the withdrawal from correspondent banking.

9. This is not a comprehensive, quantitative survey that presents an exhaustive overview of the status of correspondent banking globally in 2015. While significant – and heterogeneous – economic effects may result from the withdrawal of CBR, a quantitative discussion of those effects was outside the scope of this report. Rather, it was more narrowly focused, seeking to provide some clarity in an ongoing debate playing out in media and in policy fora, to determine whether there is indeed a decline in CBRs and if so, to describe it, delve into the possible causes, and to determine what, if any, policy action would be required.

III. Participation

10. In all, the surveys were sent to 137 banking authorities, 24 large international banks and 433 local/regional banks. One hundred and ten jurisdictions (80 percent), 20 large international banks (83 percent) and 170 local/regional banks (39 percent) responded.[4] The surveys sought to obtain information on the development of correspondent banking relationships in the period from 2012 to mid-2015. Follow-up teleconferences and other discussions sought to gather information on more recent developments experienced by the respondents. Not all authorities' responses consisted of completed surveys: some sent letters explaining the information was not available and some only provided banks contacts (Table 1). Moreover, not all respondents answered all the questions. Therefore, the numbers provided above serve only as the maximum number of responses to any given question—but for almost every question the actual number of responses provided was lower. The findings reflect information received as of November 3, 2015.

Table 1: Summary of Participation

Summary of Participation (as of November 3, 2015)			
	Authorities	**Large International Banks**	**Local/Regional Banks**
Total - Invited to Participate (#)	137	24	433
Survey Completed (#)	91	20	170
Limited Participation[5] (#)	19	N/A	N/A
Total Participation (#)	**110**	**20**	**170**
Total Participation (%)	**80%**	**83%**	**39%**

4. Please note that the total number for local/regional banks surveys completed includes only those who completed and returned their surveys (either directly or through their authorities) to the project team. The number does not include the local/regional banks to whom the authorities conducted outreach directly in order to gather data for completion of the authority survey. Some jurisdictions specified the number of banks that they reached out to; some did not specify but mentioned that they had reached out to domestic banks.

5. In addition to the 91 authorities that completed the survey, 19 authorities participated without completing the survey. One authority completed the survey in its capacity as a commercial entity. Sixteen additional authorities did not complete the survey but provided list of contacts at local/regional banks in their respective jurisdiction to be invited to participate in the project. Two authorities indicated that they could not complete the survey due to lack of data. They are being counted as participants, as some of the authorities that did complete the survey also indicated that they lacked data to be able to complete the survey.

IV. Substantive Findings

11. Given the different perspectives of each of the groups of respondents, the findings below have not been synthesized, but are instead presented separately. While in some instances overall patterns emerge, the differences in responses are sufficiently important to merit independent treatment.

a. Overall Trend in Correspondent Banking Relationships[6]

12. In certain parts and regions of the world the number of foreign CBRs is declining. As will be clear from the different groups of responses below, roughly half the banking authorities and slightly more local/regional banks indicated a decline in CBRs. For large international banks the figures are significantly higher at 75 percent. The differences might be explicable in that a great majority of the large international banks were surveyed precisely because there had been mention of those institutions having terminated, albeit to varying degrees, their foreign CBRs. For the local/regional banks there was an indication that others had withdrawn CBRs from the jurisdiction in question – but not from the specific institutions surveyed. It is important to note that the overall trend is not uniform for all jurisdictions or regions. The Caribbean seems to be the region most severely affected. The United States is most often mentioned as being home to correspondent banks that are withdrawing from foreign CBRs.

I. Banking Authorities

13. Among the 91 authorities that completed the survey, slightly more than half indicated a significant or some degree of decline in their financial institutions' foreign CBRs, from the recipient (nostro[7]) perspective.[8] Thirty-two jurisdictions (35 percent) indicated significant declines and seventeen (19 percent) indicated some decline.[9] Thirty jurisdictions indicated no significant change, two indicated significant increase, nine indicated "unknown" and one did not answer the question.

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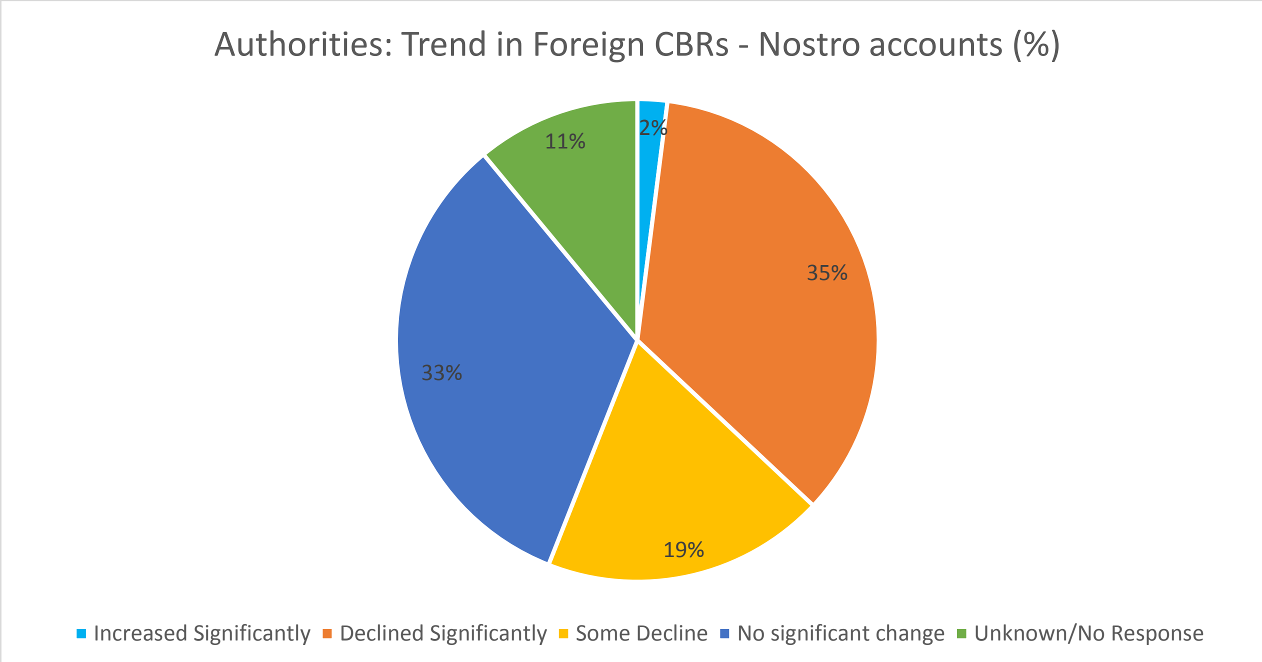
6. Many of the respondents were selected because of indications that the jurisdiction or institution concerned may be facing challenges with its foreign CBR - therefore the percentages mentioned are not reflective of the different populations as a whole.
7. The terms "nostro" (ours) and "vostro" (yours) 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. From the perspective of the bank whose money is being held at another bank, a nostro is our account of our money, held by the other bank and a vostro is our account of other bank money, held by us. Thus this report uses the term "vostro" to refer to the perspective of the provider of the correspondent banking services, while it uses "nostro" to refer to the bank receiving the service.
8. The actual number may be higher. At least three jurisdictions did not complete the survey but experienced declines in their foreign CBRs, according to IMF Article IV review reports and/or press releases issued by their Central Banks. In addition other reliable sources/experts in the field have mentioned other jurisdictions. Those jurisdictions are not included in this report since the results are based solely on inputs by the three categories of respondents.
9. A category "some decline" has been created to include jurisdictions that had checked "declined significantly" or "no significant change" because there was no option to check moderate decline, and for those whose surveys were inconsistent. Some jurisdictions indicated that they had noticed a moderate decline or a trend towards decline, but not a significant decline. Others indicated "no significant change" but noted that a number of large international banks that have restricted or terminated foreign CBRs with their domestic banks. Two jurisdictions also responded "no significant change." but Article IV review reports by the IMF indicated that the countries had experienced some changes in their CBRs; they have been included in the "Some Decline" tally.

Figure 2: Banking Authorities: Trend in Foreign CBRs – Nostro Accounts



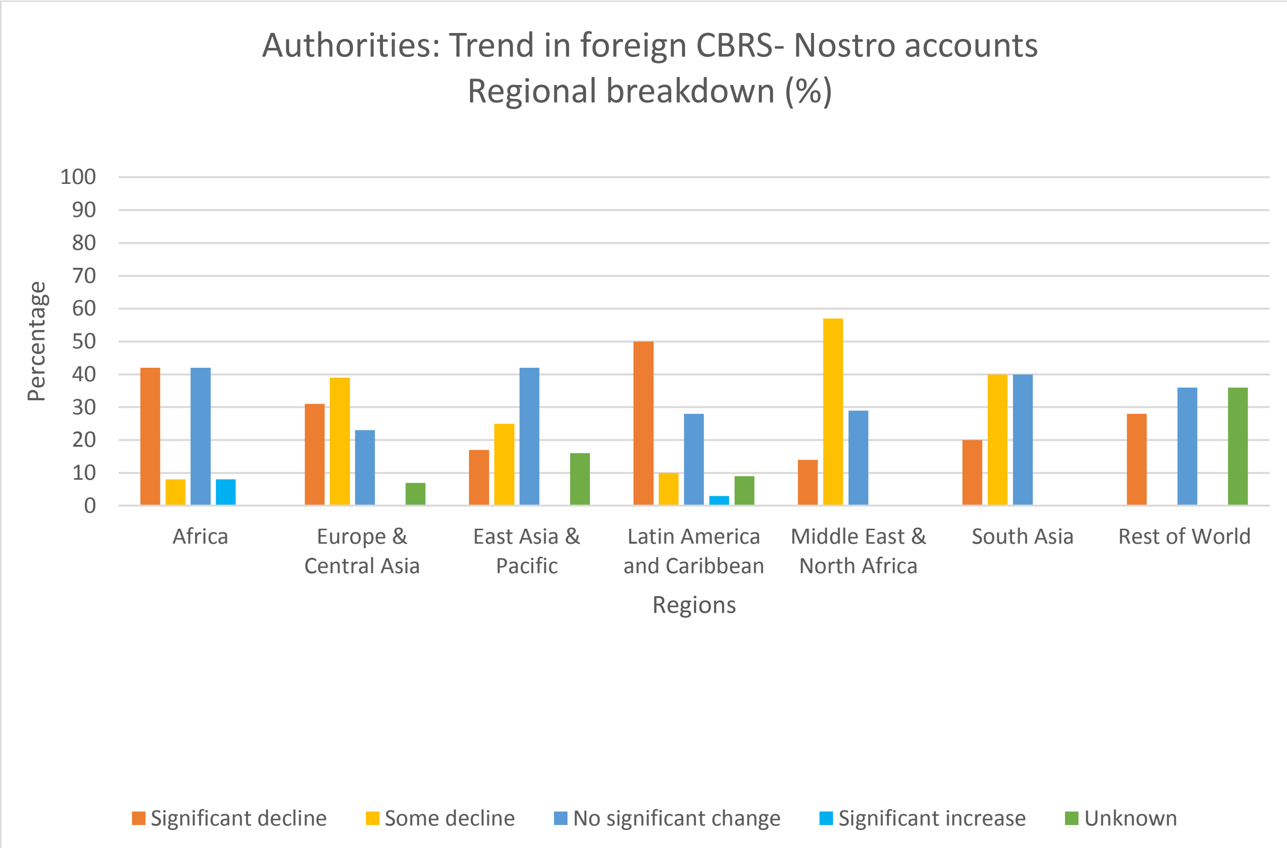
Regional Breakdown[10]

14. Regionally, Latin America and Caribbean appears to be the region most affected by a decline of foreign CBRs. A majority of banking authorities in the Caribbean region reported significant decline. In total, 89 percent of jurisdictions reported experiencing significant to moderate declines in their foreign CBRs. Of the 19 respondent authorities, 15 reported significant declines and two others noted a trend towards decline or a moderate decline with no significant impact on the banking system overall. Only two jurisdictions reported "no significant change" to their foreign CBRs. The decline appears to be less pronounced in Latin America with one notable exception.

15. The Europe and Central Asia region has experienced significant decline in its foreign CBRs. A majority of respondent authorities in the region reported experiencing significant to moderate declines in their foreign CBRs. See for further regional breakdown figure 3 below and the tables in Annex 3.

10. Regions in this survey follow the World Bank Regional Country Classification. Please note however that some jurisdictions surveyed in this report are not World Bank client countries and as such are not covered by the World Bank country classification. They have been included in the regional breakdown. An additional classification "Rest of World" has been included and covers US and Canada, and European countries that are not part of Europe and Central Asia World Bank classification (Europe-other). For more on World Bank regional designations, please see http://www.worldbank.org/en/country.

Figure 3: Banking Authorities: Trend in Foreign CBRs- Nostro accounts: Regional breakdown (%).



Country Profiles

16. Jurisdictions where there has been a decline include small jurisdictions with low volumes of business/transactions, particularly in Europe and Central Asia, the Caribbean, and Africa.

17. Small jurisdictions with significant offshore banking activities are particularly affected by the decline of CBRs. First and foremost, the Caribbean appears to be the region the most affected by a decline of foreign CBRs. Small countries with significant offshore banking sector in Europe and Africa are also experiencing a significant decline in their foreign CBRs. Despite their size, some of the relevant off-shore jurisdictions count among the top international financial centers worldwide (measured by volume of transactions).

18. Jurisdictions perceived as ML/FT high-risk jurisdictions or those subject to international sanctions, and jurisdictions affected by sanctions by the US Office of Foreign Assets Control (OFAC) in particular, are also affected.

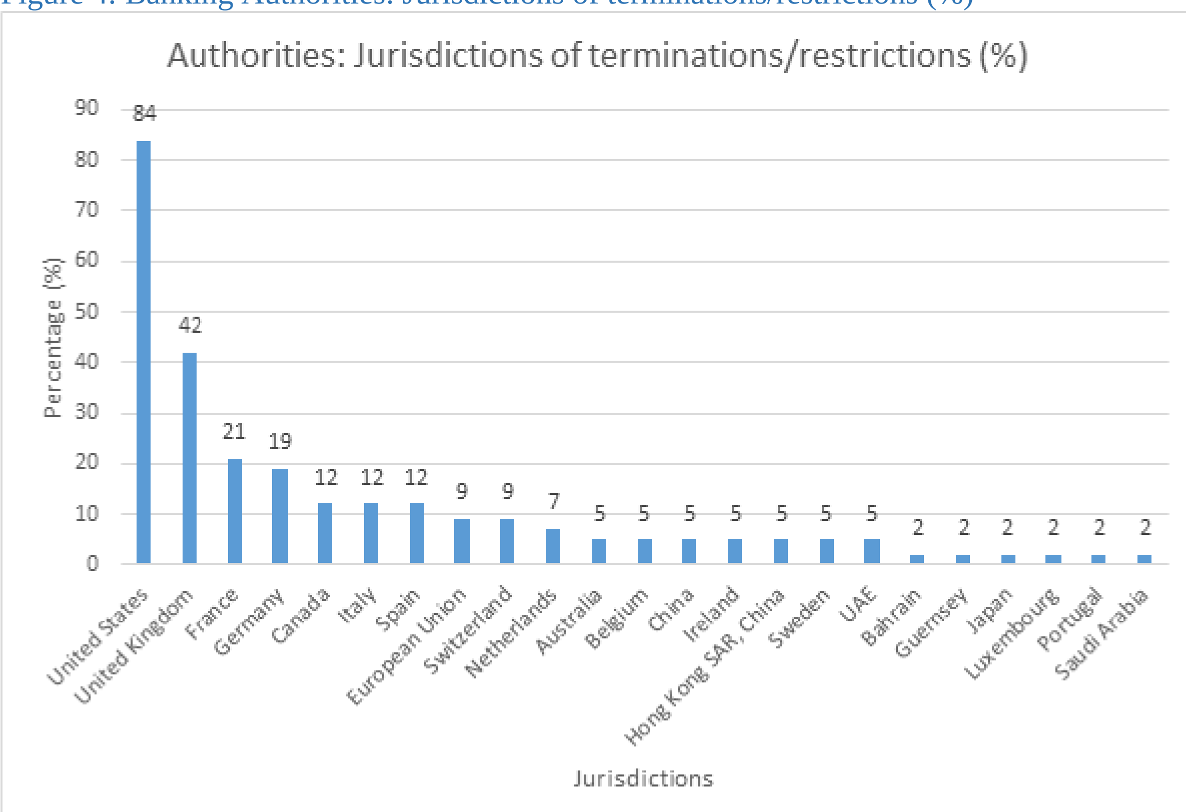
19. Some significant decline in foreign CBRs has been noted in major economies which are among the top remittance recipient countries (in terms of value of remittances). In addition, eight G20 member jurisdictions, experienced significant to moderate decline in their foreign CBRs—four a significant decline and four moderate decline in nostro accounts.

Jurisdictions of Financial Institutions Terminating/Restricting CBRs

20. Jurisdictions most often mentioned as being home of financial institutions terminating/ restricting CBRs were, in order of times mentioned, the US, the United Kingdom (UK), the European Union (France, Germany, Italy, Spain, the Netherlands, Belgium, Portugal and others), and Canada. Switzerland is also significant. The US most significantly outnumbers other jurisdictions.[11] Thirty-six (84 percent) of the 43 respondent banking authorities that answered this question listed the US as the top jurisdiction where the foreign correspondent banking relationships have been terminated or restricted. The UK was the second jurisdiction most mentioned with 42 percent of respondents. The European Union (EU) as jurisdiction and other (non-UK) EU countries were also among those most mentioned. See the table in Annex 5 – for jurisdictions of terminations/restrictions.

21. From the provider's perspective (vostro accounts), 11 jurisdictions indicated that their financial institutions terminated or restricted a significant number, or significantly altered the nature of, their foreign corresponding banking relationship. The jurisdictions are located in Africa, the Caribbean, East Asia and Pacific, Europe and Central Asia, the Middle East, and Rest of World.[12]

Figure 4: Banking Authorities: Jurisdictions of terminations/restrictions (%)



11. Such feedback has to be considered in the context of the US being understood to be the largest provider of foreign CBRs. However, we lack of authoritative data on the overall number of CBRs and distribution among jurisdictions.
12. However please note that while certain authorities did not respond to this question, they discussed the most prominent causes for reduction/restrictions in foreign CBRs by their financial Institutions.

22. The authorities also indicated jurisdictions of financial institutions with whom their banks were terminating CBRs. The Middle East and Africa are mentioned most frequently. One of the main reasons given is related to concerns with countries that have sanctions imposed against them. In addressing the issue, most authorities on both the side of correspondent and respondent banks, recognized the need to have robust AML/CFT frameworks in place, and discussed initiatives taken to enhance AML/CFT standards within the jurisdiction – including through:

- conducting national risk assessments;
- issuing guidelines and carrying out awareness raising among stakeholders; and
- elevating the issues faced by de-risking with the international financial community through direct representations with concerned standard-setting bodies in various international fora.

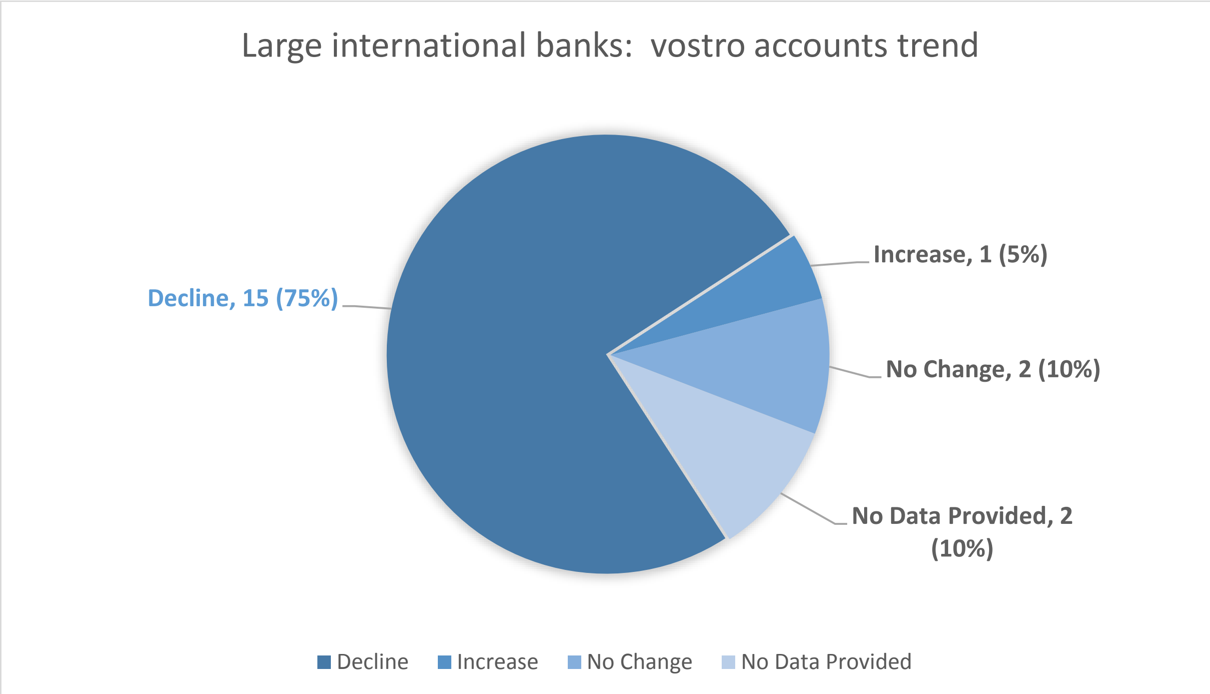
23. More specifically, Mexican authorities have responded to the situation by taking steps to amend their legislation to allow domestic banks to share information in relation to clients with foreign correspondent banks at their request. Foreign correspondent banks need to register with the Mexican Ministry of Finance in order to gain access to this information... In addition the Mexican authorities are developing a centralized database that will hold information in relation to all cross-border transactions undertaken by domestic banks, which will enable the authorities to access information held on clients.[13]

II. Large international banks

24. Three quarters of the large international banks responded that the number of vostro accounts they held had declined in the period between end 2012 and mid-2015. One large bank indicated an increase, two noted no change and two did not provide data. Due to the different methods used (and data provided) by the various banks, it is difficult to provide an accurate count of foreign CBRs closed by the banks. However, in percentage terms the declines ranged from low single digits to more than half in the case of one bank. For the one bank that had noted an increase in its vostro accounts, this increase was quite small in number of relationships and in low single digit in percentage terms.

13. Access to the database by private entities such as banks are still being worked out. Source: Teleconferences with Mexico central banking authorities and a domestic bank, October 2015.

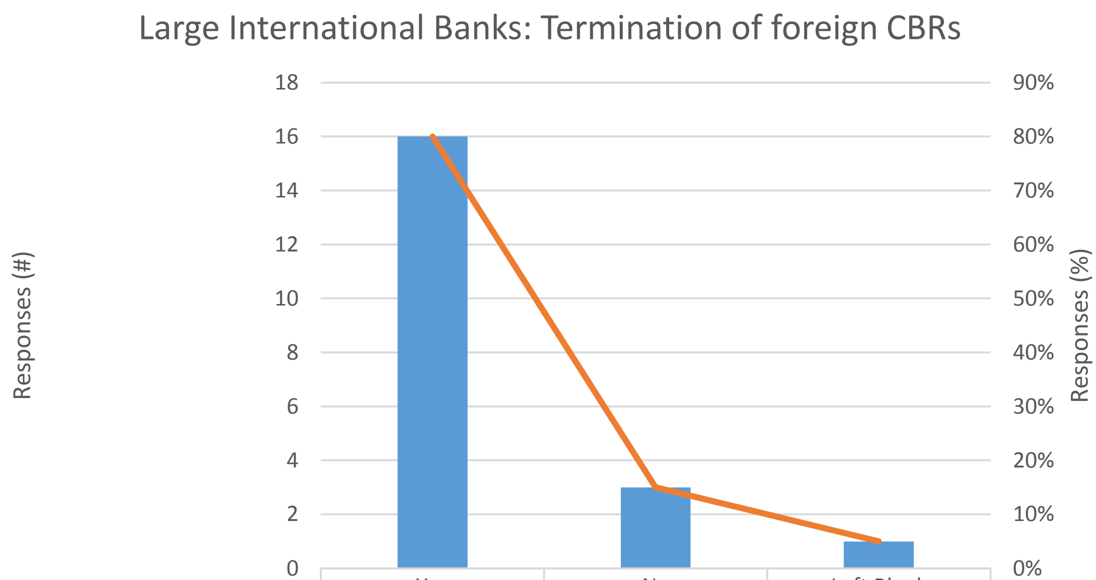
Figure 5: Large International Banks: Vostro Accounts Trend



25. Fourteen banks provided data on regional distribution of their vostro accounts, however two of them only provided data for 2015 and one provided data only for end-2014. Six remaining banks did not provide data, citing business confidentiality. Some banks also were not able to provide the data by region as specified in the survey, further complicating the regional trends analysis. However, it is significant that except for a very small number of cases, the banks as a whole experienced declining trends, in varying degrees, in their foreign CBRs across Africa, East Asia and Pacific, Europe and Central Asia, Latin America and Caribbean (although respondents noted that the trend is more apparent in the Caribbean than in Latin America in general), and Middle East and North Africa. The regions of South Asia and Rest of World appeared to have increased in the number of their foreign CBRs, but the increases were quite small, usually in double digits in number of accounts increased.

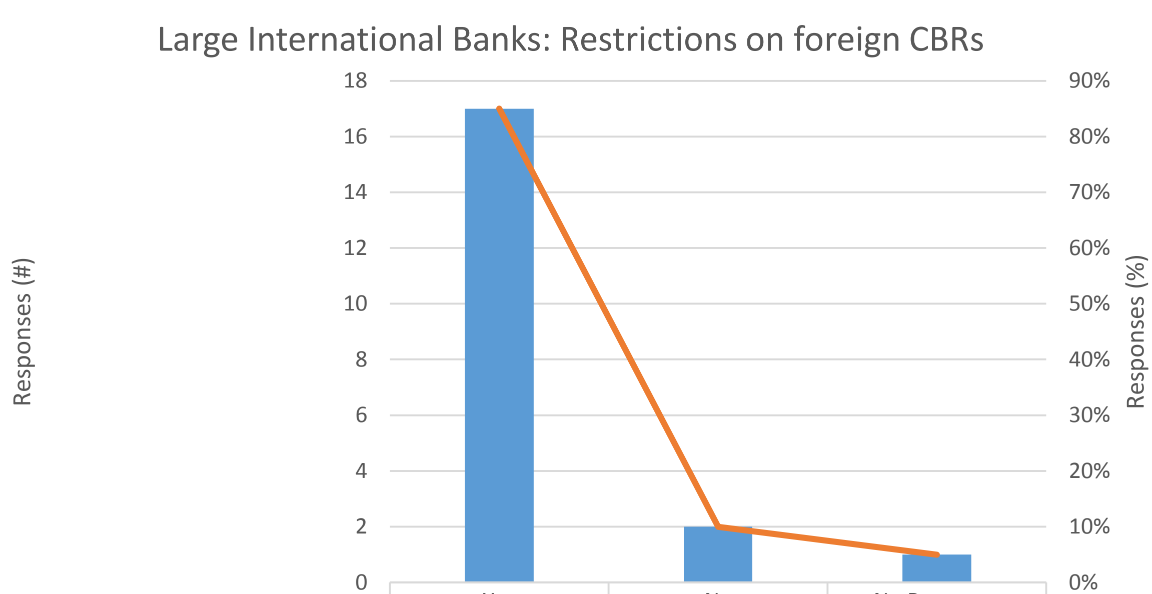
26. Eighty percent of the banks responded that they had terminated *all* CBRs with financial institutions in certain jurisdictions. A slightly larger percentage of banks responded that they had restricted the size and/or scope of CBRs in certain jurisdictions. The banks also specified the jurisdictions (and in some cases, regions) where they had terminated or restricted their foreign CBRs. The central banking authorities and local/regional banks in these jurisdictions formed a significant part of the project team's outreach in the second phase of data-gathering. The results of those surveys confirm the data provided by the large international banks.

Figure 6: Large International Banks: Termination of foreign CBRs



	Yes	No	Left Blank
Terminated all CBRs (#)	16	3	1
Terminated all CBRs (%)	80%	15%	5%

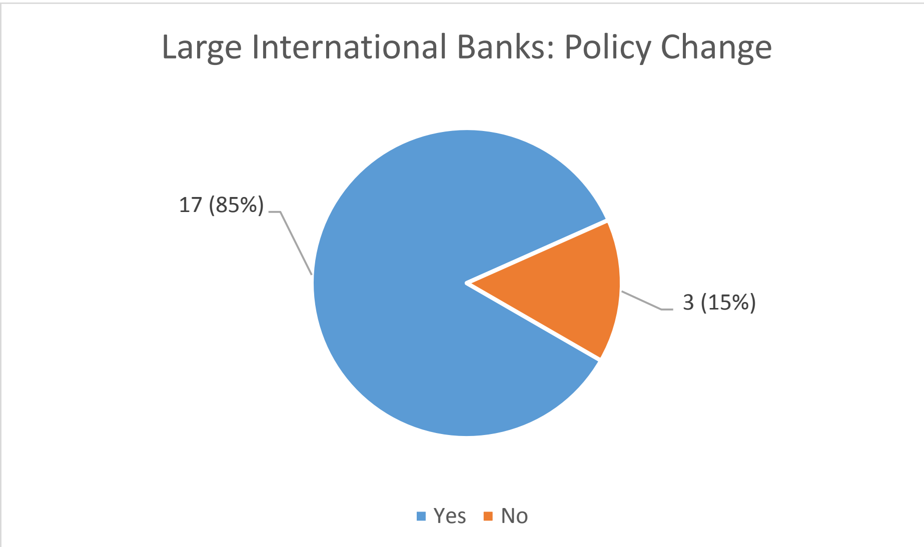
Figure 7: Large International Banks: Restrictions on foreign CBRs



	Yes	No	No Response
Restricted size and/or scope of CBRs (#)	17	2	1
Restricted size and/or scope of CBRs (%)	85%	10%	5%

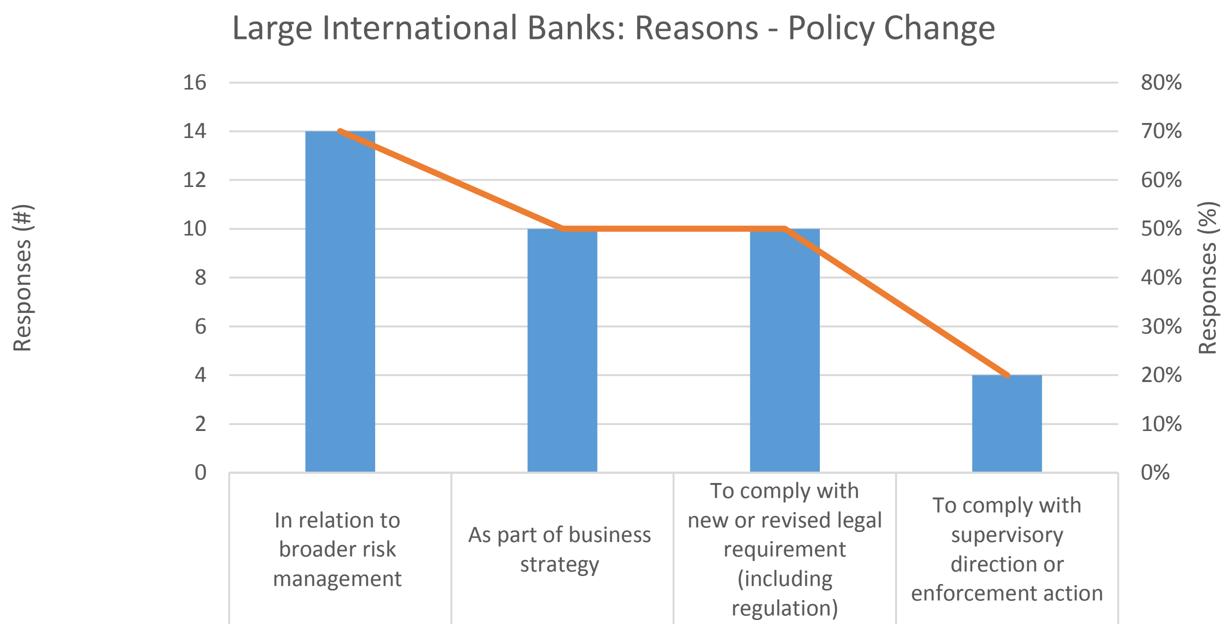
27. The large international banks' withdrawals from foreign CBRs are part of wider policy changes implemented in recent years. Seventeen of the 20 large international banks responded that their foreign correspondent banking policy had been revised since 2012 (Figure 7). Many expressly indicated that their CBR policies are subject to regular or periodic review, either separately or as part of review of other policies and guidelines pertaining to conduct risk and financial crimes, for example.

Figure 8: Large International Banks: Policy Change



28. The banks adopted or revised their policy not just for one reason but for a combination of factors. The most frequently cited reason for the policy change related to the banks' broader risk management, as part of their business strategy or the need to comply with new or revised legal requirements. Four banks noted that policy change was undertaken in order to comply with supervisory direction or enforcement action.

Figure 9: Large International Banks: Reasons for Policy Change



	In relation to broader risk management	As part of business strategy	To comply with new or revised legal requirement (including regulation)	To comply with supervisory direction or enforcement action
Responses (#)	14	10	10	4
Responses (%)	70%	50%	50%	20%

III. Local/regional banks

29. A majority (60 percent) of local/regional banks indicated a decline in foreign CBRs. As a whole, local/regional banks experienced declining trends at various levels throughout the world.

30. Some of the regions most affected by declining foreign CBRs included Europe and Central Asia where over 80 percent (30 banks) indicated a moderate or significant decline in CBRs.[14]

31. Latin America and the Caribbean was also highlighted as being a region significantly affected by declining CBRs where 66 percent of the banks reported a decline. The Caribbean more specifically was affected with 69 percent (32 banks) indicating a moderate or significant decline in CBRs. Follow-up conversations and phone interviews with several local banks confirmed this trend in the Caribbean.

32. Africa was also considerably affected where over 51 percent (46 banks) from a number of jurisdictions that vary as to the size and nature of their banking sector indicated a moderate or significant decline in CBRs[15]. A detailed overview is contained in Figure 10 below.

14. Please note that only local/regional banks form Eastern Europe provided surveys.
15. Please note that the numbers may be somewhat skewed for the Africa Region since local/regional banks from one jurisdiction under targeted sanctions completed 13 surveys (out of a total of 47), which represents 28 percent of responses from the region. However, the authorities and large international banks surveys and other outreach support the local banks survey findings for the region as a whole.

Figure 10: Local/Regional Banks: Trend in foreign CBRs

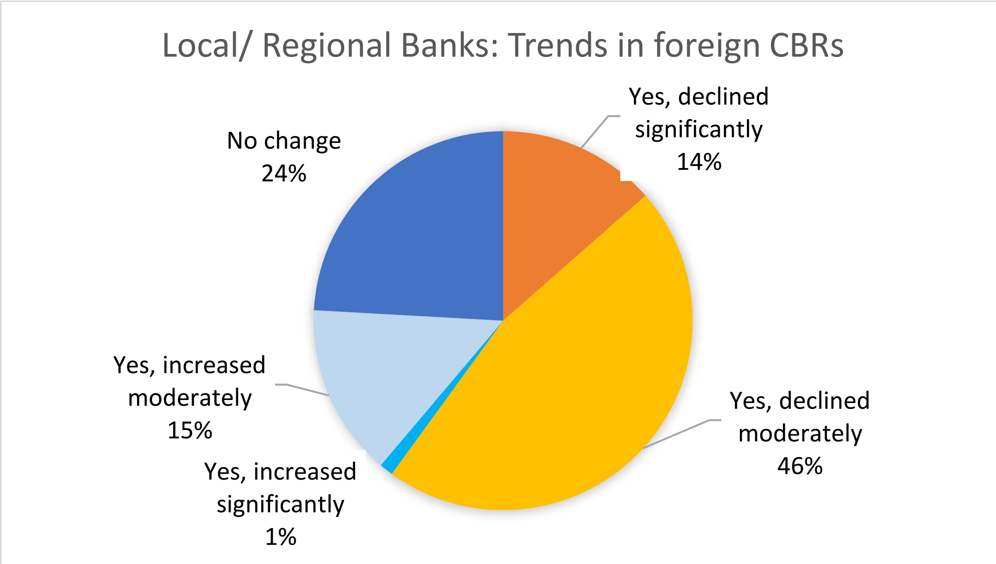
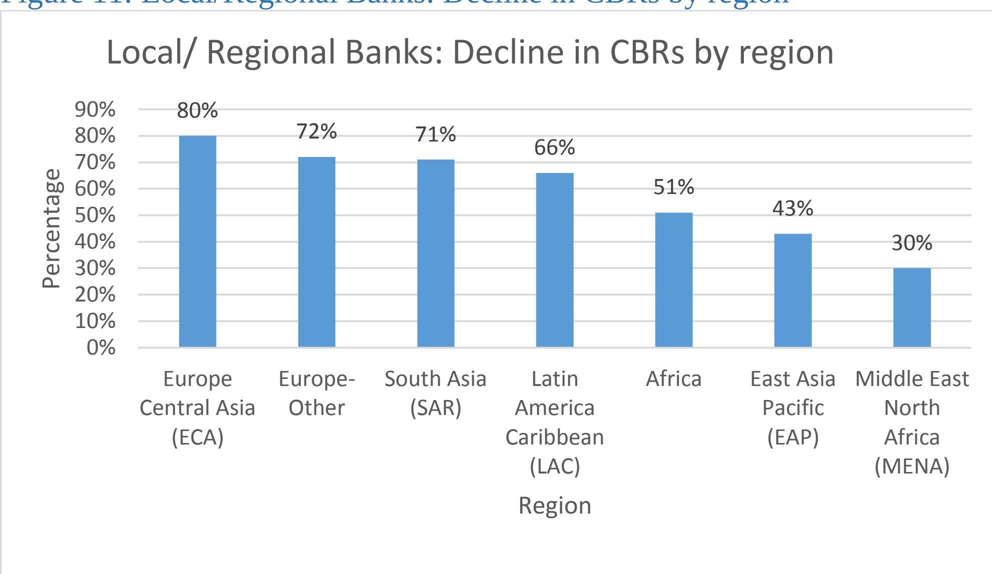
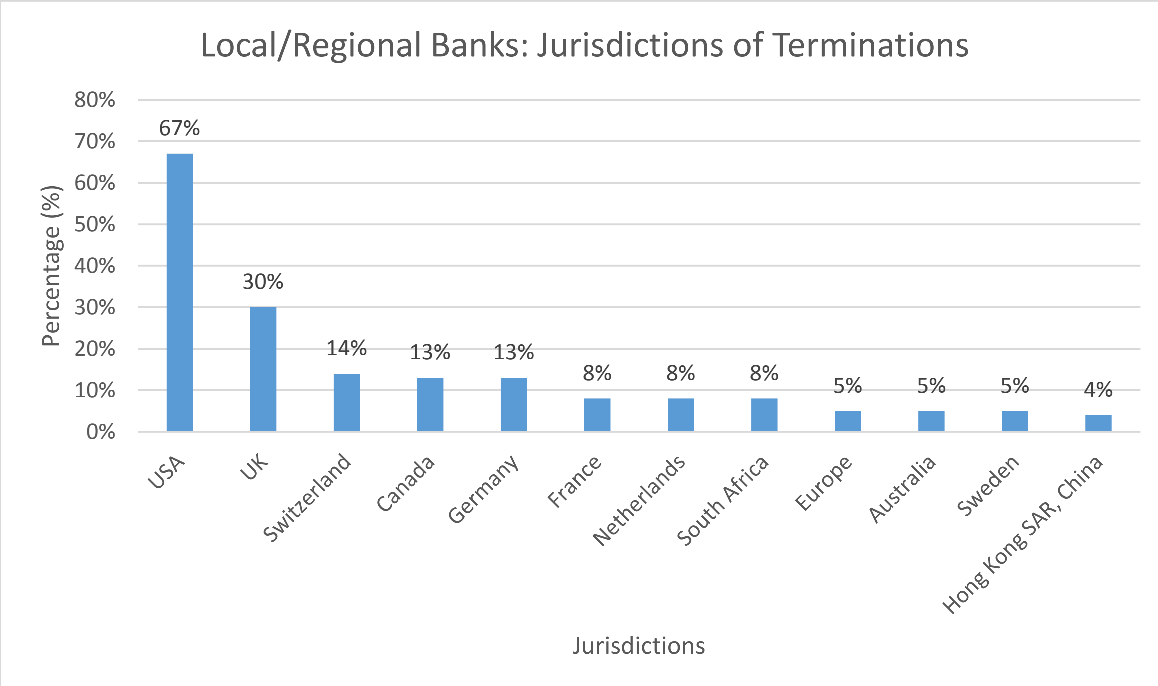


Figure 11: Local/Regional Banks: Decline in CBRs by region



33. Jurisdictions most often mentioned as being home to financial institutions terminating CBRs were, in order of times mentioned, United States (67) and UK (30). Switzerland (14), Canada (13) and Germany (13) are also mentioned often (please see annex 12). The US most significantly outnumbers the others—more than double of the UK, the second most mentioned. Such feedback has to be considered in the context of the US being understood as the largest provider of foreign CBRs. However, we lack of authoritative data on the overall number of CBRs or regional distribution.

Figure 12: Local/Regional Banks: Jurisdictions of terminations[16]



b. Effect on Products and Services

34. The products and services identified as being most affected by the withdrawal of correspondent banking are: check clearing, clearing and settlement, cash management services, international wire transfers and for banking authorities and local/regional banks, also trade finance. The discrepancy on trade finance between the responses from the large international banks and from the other categories of respondent may be due to the fact that local/regional banks experience the effects directly in having to tell their customers they cannot provide trade finance[17].

I. Banking authorities

35. Authorities that had indicated a decline in their CBRs were asked to indicate which products/services were affected and to what extent. The products/services most often noted as affected significantly to moderately significantly affected are international wire transfers (80 percent of respondents)[18], with international wire transfers in USD noted most often (46 percent); clearing and settlement (46 percent); and check clearing (39 percent); trade finance (37 percent); cash management services - deposit accounts, payable through accounts (34 percent); investment services (32 percent),

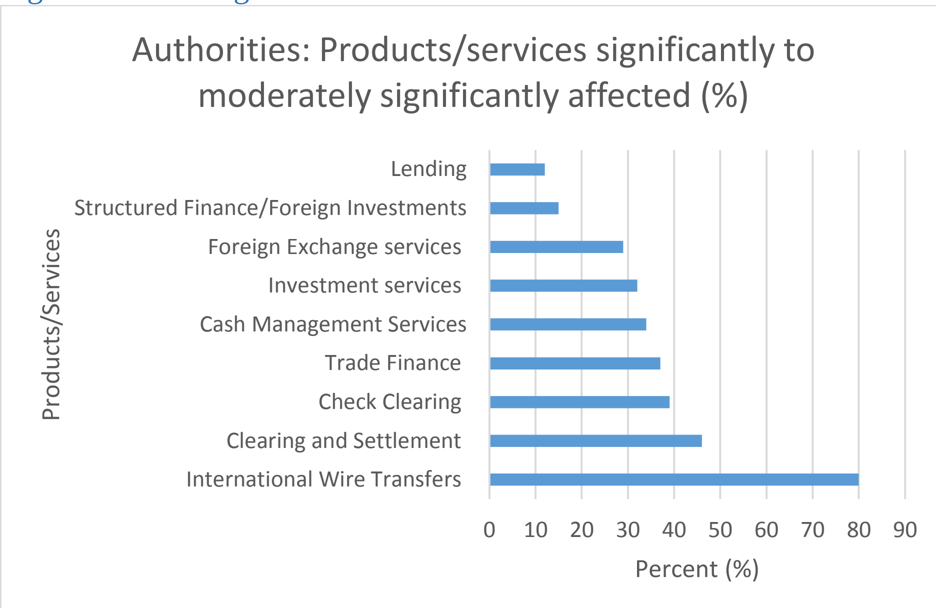
16 Please note that respondents were asked to provide the name of the jurisdiction(s), however several respondents put regions instead, such as Europe.

17. The report of the International Chamber of Commerce ('Rethinking Trade and Finance 2015 - An ICC Private Sector Development Perspective'), based on responses from 482 banks across 112 countries, notes that AML/KYC requirements are seen as the most significant impediment to trade finance with 70% of respondents reporting declining transactions due to AML/KYC issues. Report at http://www.iccwbo.org/Products-and-Services/Trade-facilitation/ICC-Global-Survey-on-Trade-Finance/.

18. Out of 41 respondents, 33 noted that international wire transfers were moderately to significantly affected (19 for international wire transfers in USD; 6 in euros, and 8 in other currencies).

and foreign exchange services (29 percent) were also noted as having been affected to a significant or moderately significant extent.

Figure 13: Banking Authorities: Products/ Services affected



Currencies Affected

36. Banking authorities mentioned the impact of the decline of CBRs on their ability to conduct foreign currency denominated transactions in the following jurisdictions: 87 percent of respondent authorities mentioned the United States (20 respondents), 48 percent the European Union (11 respondents), 17 percent the United Kingdom (seven respondents), 13 percent Canada (four respondents), and 13 percent China (three respondents). Based on the jurisdictions most often listed by respondents, the ability to conduct foreign currency denominated capital or current account transactions in US dollar (USD) have been most significantly affected followed by Euro, pound sterling (GBP), and Canadian dollar (CAD) and the Renminbi (RMB).

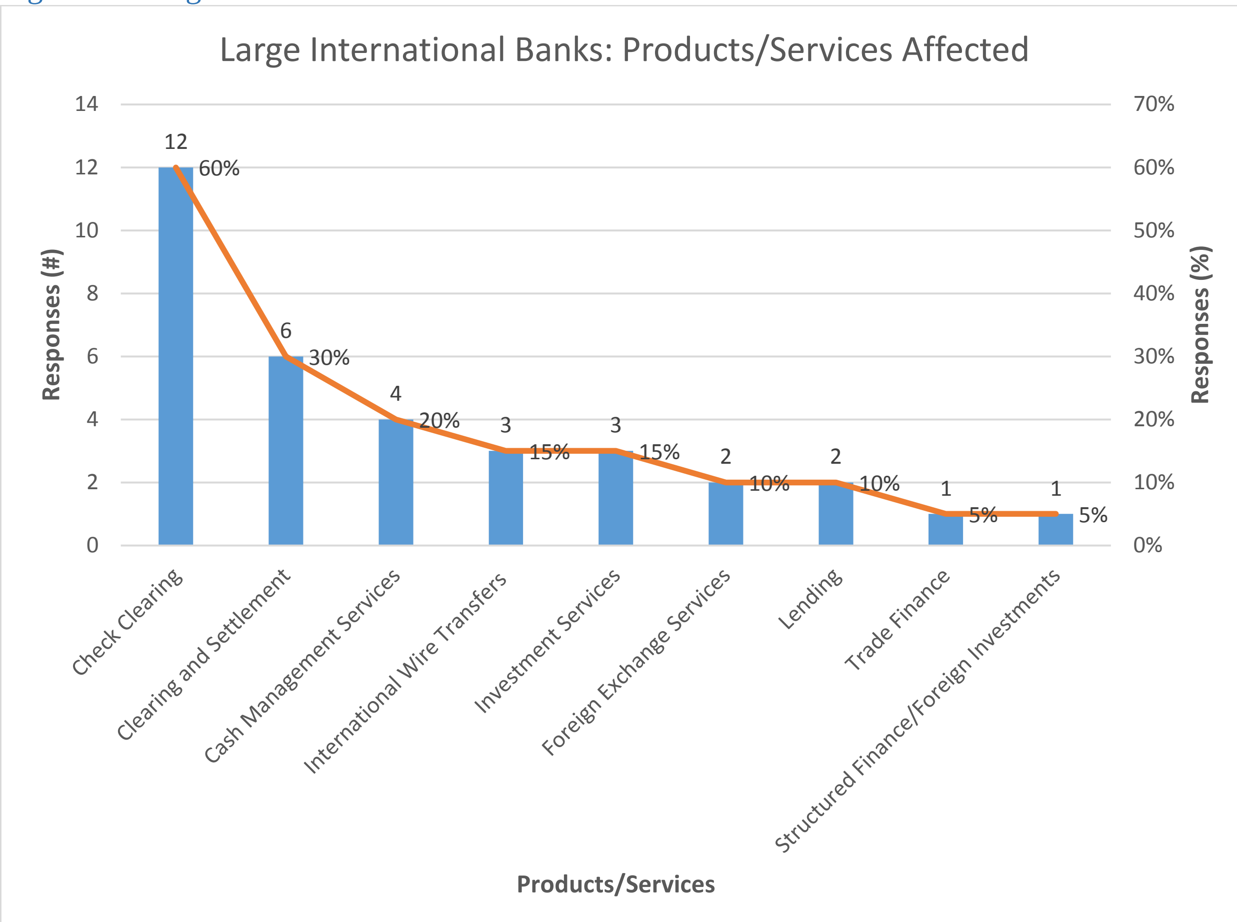
II. Large International Banks

37. Nearly all banks provide the full menu of foreign correspondent banking services to their clients, including clearing and settlement, foreign exchange services, international wire transfers and trade finance. The vast majority also indicated that they provide cash management, check clearing, investment and lending services. While a large majority of the banks indicated that they had not stopped providing any particular products/services, there have been reductions in their provisions. It is important to bear in mind that 75 percent of the banks indicated that the number of Vostro accounts they held had declined in the period between end 2012 and mid-2015.

38. Sixty percent of large international banks responded that they had significantly or moderately reduced their check clearing services, 30 percent their clearing and settlement services and 20 percent cash management services. Please note that for clearing and settlement and international wire transfers,

most banks provide these services in multiple currencies, but some tend to specialize in the currency of their jurisdiction of headquarters.

Figure 14: Large International Banks: Products/Services Affected



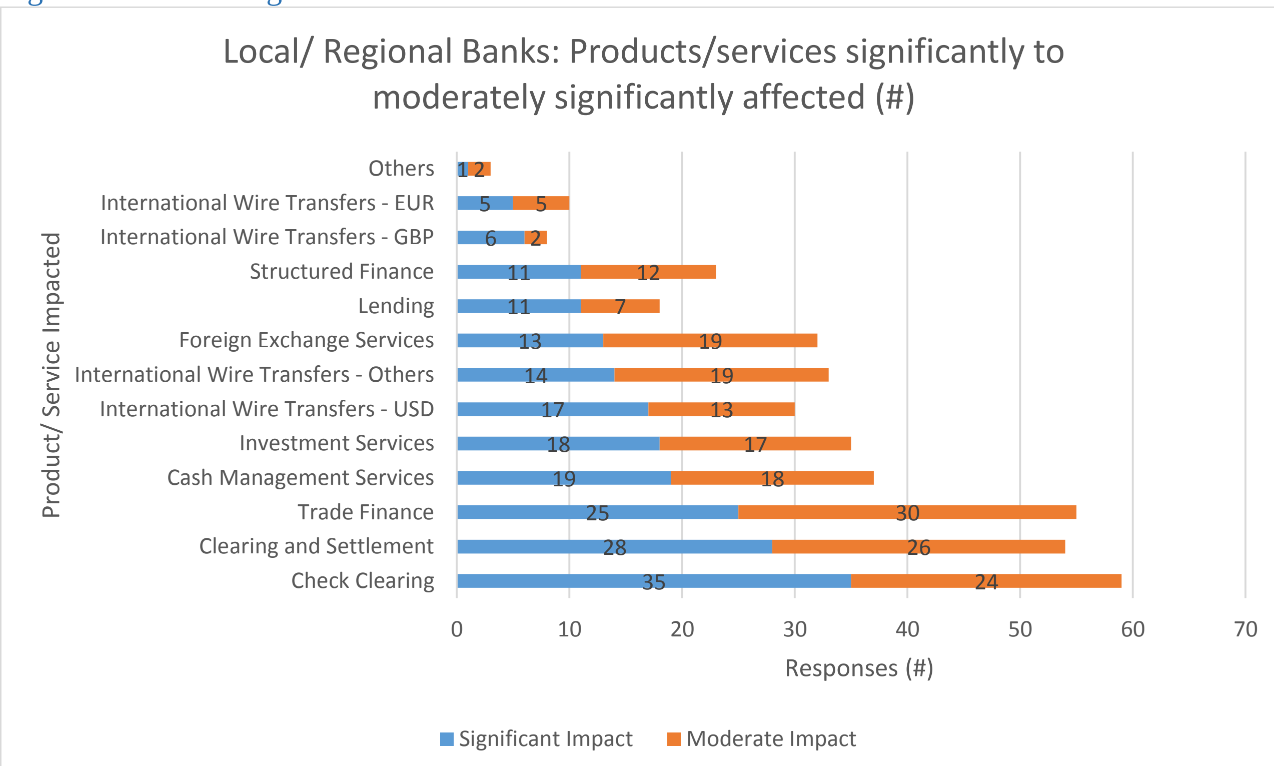
39. For check clearing, banks noted that they do not provide check clearing services for checks not drawn on that bank's accounts or the service had always been restricted to third party banks for checks drawn on banks of its home jurisdiction. Others noted that check clearing was significantly reduced globally for USD checks cleared out of New York or noted a significant reduction in check clearing for the currency of the jurisdiction of their headquarters and primary clearing currency.

40. There was little feedback as to the jurisdictions affected but a small number of banks indicated that they were moving towards focusing on their "home" currencies, including decision to reduce clearing for exotic currencies. See Annex 9 for table of large international bank responses on products/services affected.

III. Local/Regional banks

41. For local/regional banks, the decline in foreign CBRs of financial institutions affected its ability to access the following top three products/ services: check clearing, clearing and settlement services and trade finance (letters of credit).

Figure 15: Local /Regional Banks: Products/Services Affected

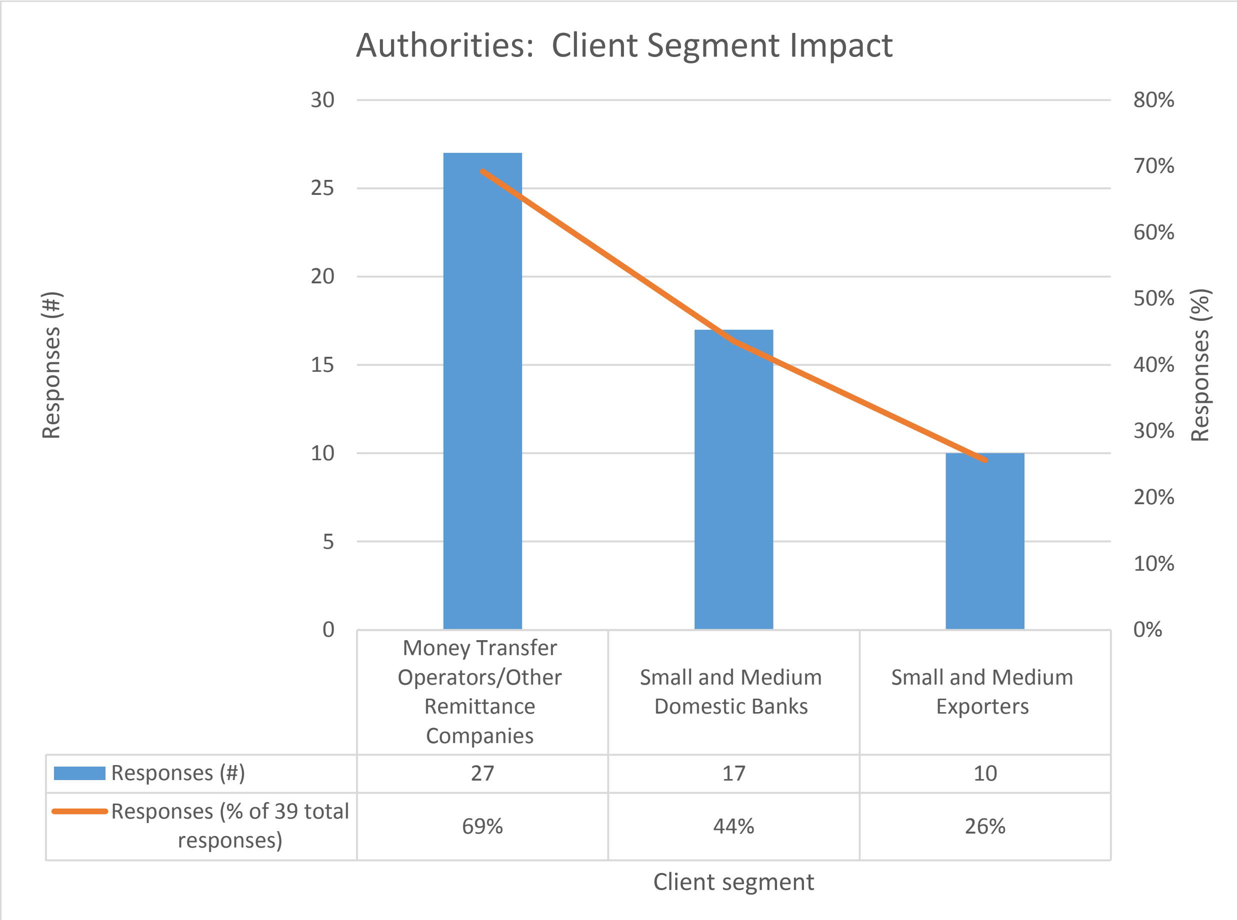


c. Client segments most significantly affected by the decline of foreign CBRs

I. Banking Authorities

42. Over 69 percent of the respondent banking authorities indicated that money transfer operators and other remittance companies are most affected, followed by small and medium domestic banks (44 percent) and small and medium exporters (26 percent). Respondents also specified other types of clients/client segments including retail customers, international business companies, and e-gaming/gambling.

Figure 16: Banking Authorities: Client Segments affected



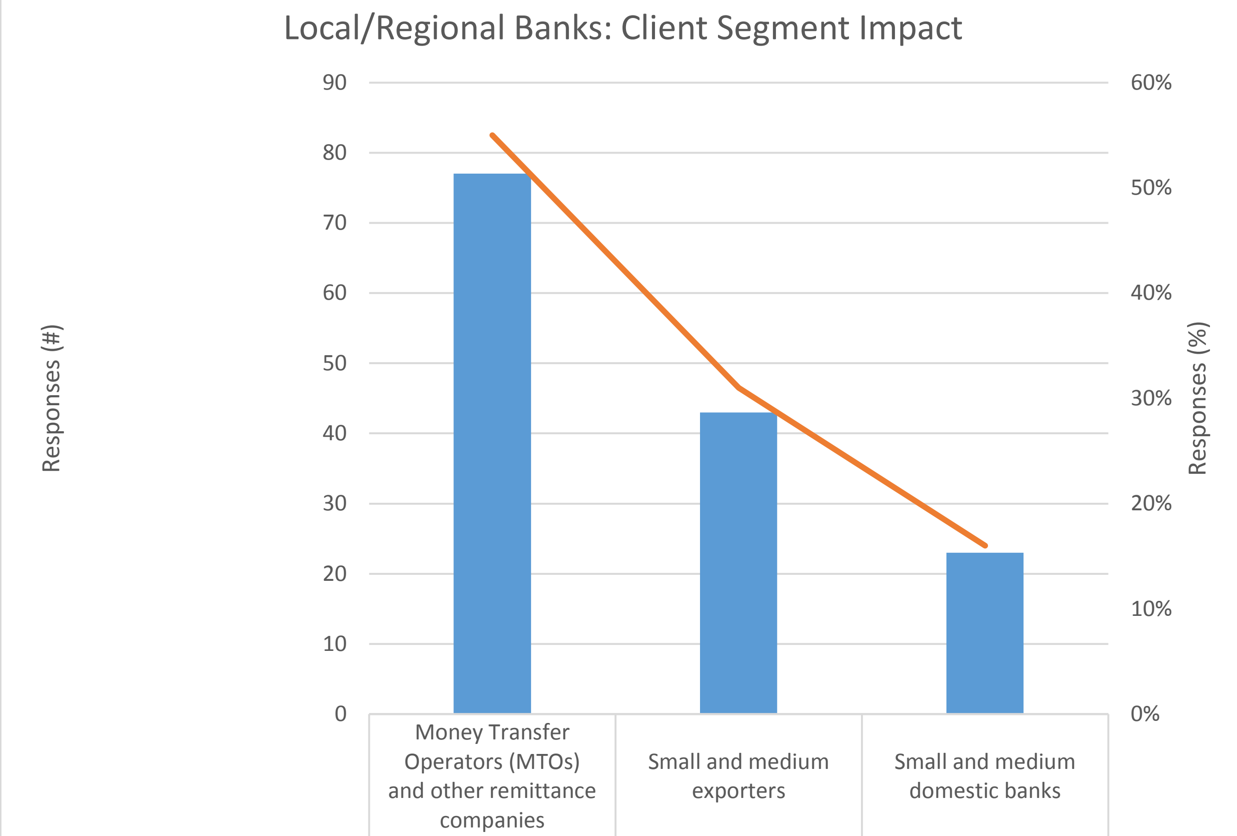
43. The respondent banking authorities that reported significant impact on money transfer operators and other remittance companies were located mostly in the Caribbean, in East Asia and Pacific, in MENA, Africa, and Europe and Central Asia. It is interesting to note that some jurisdictions where money transfer operators and other remittance companies are most affected are among the top remittance recipient countries (in terms of value of remittances).[19]

II. Local/Regional Banks

44. The respondents indicated that money transfer operators (MTOs) and other remittance companies/ service providers are significantly affected, followed by small and medium exporters. Respondents also specified other types of clients/client segments including "casas de cambio" (money exchange houses), exporters, importers and PEPs. Small and medium domestic banks appear to be less affected, but it should be highlighted that local/regional banks selected in this survey are more users (nostro accounts) than providers (vostro accounts) of foreign CBRs. See Annex 10 Client segment impact.

19. The top recipients of remittances as a share of GDP were also considered, but the response rate for those countries was low.

Figure 17: Local/Regional Banks: Client Segments Affected



	Money Transfer Operators (MTOs) and other remittance companies	Small and medium exporters	Small and medium domestic banks
Responses (#)	77	43	23
Responses (% of 143 total responses)	55%	31%	16%

d. Possible causes of decline in foreign CBRs

45. The drivers of the decline in foreign CBRs can be divided into two groups: one category of causes that are more business related, explaining the decision to terminate a foreign CBR in purely economic terms, and one (as mentioned in the introduction) more regulatory and risk related, explaining the decision to sever ties with certain actors as based on the level of ML/FT risk of the counterpart being unmanageable, and concerns that one might fall foul of AML/CFT, international/regional sanctions—or other legislation or regulations.[20]

20. To be clear: AML/CFT and sanctions regulations, though often bracketed in the same category, are different in application. AML/CFT will often involve subjective judgment by the institution whether a specific transaction is related to money laundering or terrorism financing and should be reported or frozen. For the application of sanctions regulations there is no such subjectivity: if a transaction benefits a person or entity or country that is subject to sanctions, then the financial institution has no choice but to freeze the transaction.

46. Of course, the two categories of drivers are related. The requirement to comply with a regulatory rule might drive up the costs of establishing and/or maintaining certain relationships. As one respondent succinctly put it: "[B]anks face high costs of complying with standards (particularly for banks who are concerned about jurisdictional risk and – notably given some of the uncertainties around AML/CFT requirements - consider it necessary to know their customer's customers), but also high costs for any oversight/mistakes. This risk-reward ratio, of high (potential) costs and low profitability, is a key driver behind the decline in correspondent banking services. Given the potential damage to reputation and balance sheet from any enforcement case, firms seek to avoid any counterparties/jurisdictions where there is uncertainty."

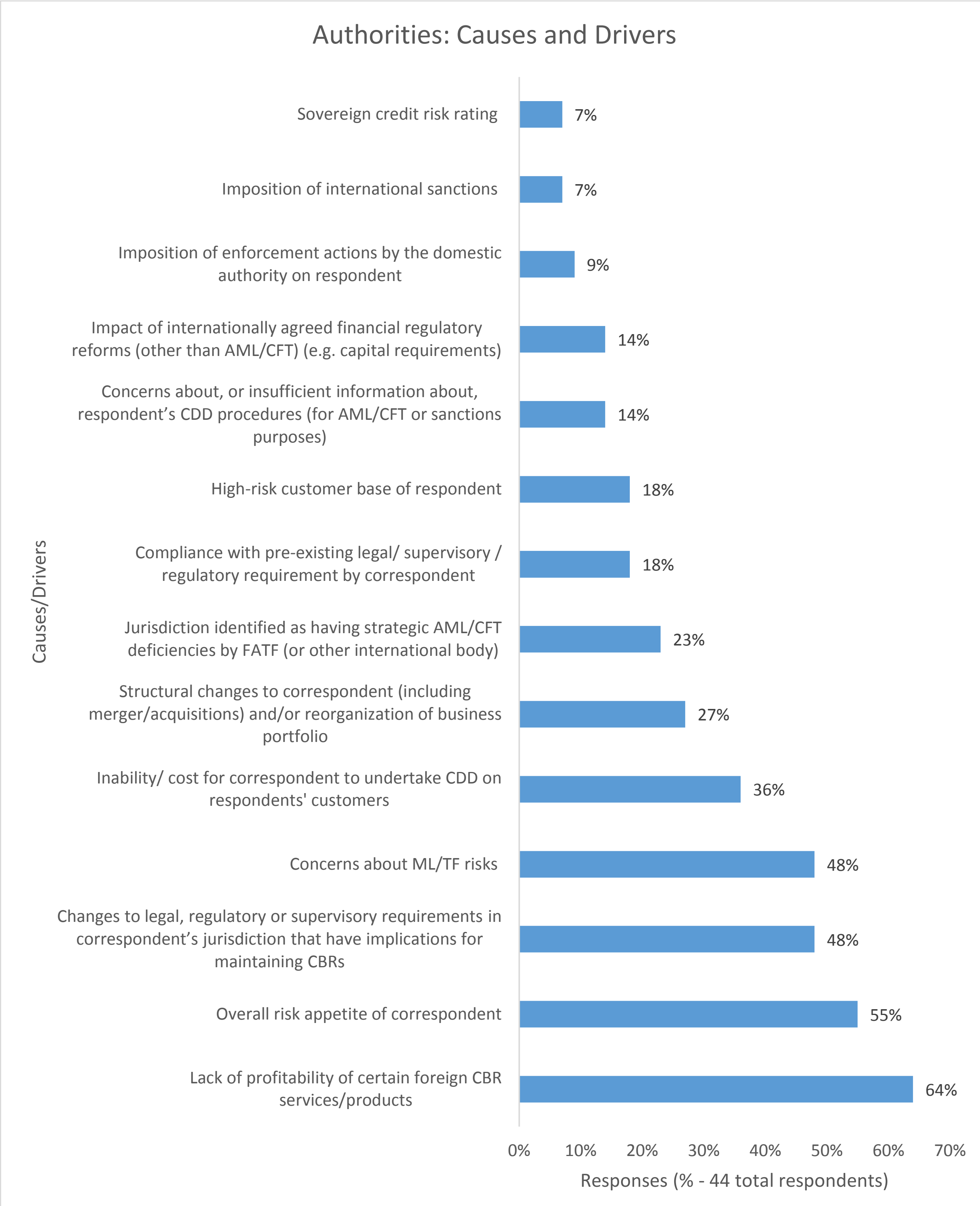
47. Indeed quite a number of respondents indicated the decline in foreign CBRs was due to drivers in both groups. However, the AML/CFT and/or regulatory factor cannot always be expressed in monetary terms—and precisely therein lies at least some of the problem. Recent high profile fines for infringements of AML/CFT provisions and uncertainty about what exactly is required, about what the regulatory expectations are (including in terms of acceptable risk appetite), how they might evolve over time and what the consequences would be of possibly falling foul of certain regulatory rules (as also highlighted in the quote above), has led banks to play it safe. As one respondent put it "We're supposed to have a risk-based approach, but what we have is a fear based approach". That uncertainty makes it impossible to give it a monetary value—and quantify the costs in terms that can be factored in and dealt with as part of their overall risk-reward ratio assessment.

48. While local/regional banks put more of an emphasis on the economic/business rationale for the decline, banking authorities and large international banks emphasized both actual level of risk, regulatory AML/CFT and business related concerns. The discrepancy is possibly due to the fact that not all local/regional banks are fully informed about the reasons for termination of their accounts (or only in more vague terms) as was also mentioned in follow up discussions.

I. Banking authorities

49. As noted, overall, authorities that had indicated decline in their foreign CBRs point predominantly to both categories of drivers to explain the decline in foreign CBRs in their jurisdiction. Figure 18 summarizes the main causes/drivers.

Figure 18: Banking Authorities: Causes and Drivers



50. More than 18 percent of the banking authorities that responded mentioned the high-risk customer base of their financial institutions as a cause of decline. When asked to specify the high-risk customer base, the following categories of high-risk customers were mentioned by some of the authorities:

- Money transfer operators/ Money exchange companies
- Private Banks
- Customers and/or beneficial owners from high risk countries
- Offshore sector/ Offshore companies serving as Special Purpose Vehicles
- Private Members Clubs (Casino Type Business)
- Politically Exposed Persons
- Cash-intensive businesses (e.g. supermarkets)
- Specialized professionals (e.g. lawyers)
- Individuals on the OFAC Specially Designated Nationals List

51. Ninety-one percent of banking authorities respondents (40 out of 44) mentioned either lack of profitability of foreign CBRs services or structural changes together as accounting for the decline in foreign CBRs. Increasing costs of regulatory compliance however, notably the inability and cost to undertake CDD and/or insufficient information about respondent’s CDD procedures (for AML/CFT or sanctions purposes) have been mentioned significantly by half of respondent authorities. Almost half of the respondents also mentioned overall risk, concerns about ML/TF risks, and changes to legal or regulatory requirements in foreign jurisdictions as causes of decline. Altogether, 73 percent of respondent banking authorities mentioned AML/CFT concerns as one of the driver for restriction or termination.[21] The impact of other regulations such as Basel III (14 percent)[22] and FACTA were also mentioned albeit marginally.

52. Some banking authorities noted a recent switch in the rationale provided by banks for termination or restriction of foreign CBRs in their jurisdictions. They have shifted from core business portfolio reorganizations to the increasing cost of regulatory compliance, particularly related to AML/CFT. It is unclear whether in all instances the switch is real—or whether it is only the justification provided to the outside world.

53. An illustrative example was recently provided by a small financial center which had indicated a significant decline in their CBRs in the past year. After a “Notice of Finding” by the US Financial Intelligence Unit, FinCEN, that one of the banks in the jurisdiction was perceived as a financial institution of primary concern for money laundering under the US Patriot Act, all of the concerned bank’s foreign CBRs were terminated. This decision had a broader impact on the other banks in the jurisdiction where a significant decline in foreign CBRs was noted for all banks in the country, even though these institutions did not have any transactional relationships with the financial institution of primary concern for AML/CFT. Compliance lapses – actual or alleged – by even one financial

21. Percentage based on the thirty-two respondent authorities out of forty-four that mentioned either “concerns about ML/TF risks, the inability/ cost for foreign financial institutions to undertake CDD on your financial institutions' customers” and/or “concerns or insufficient information about CDD procedures (for AML/CFT or sanctions purposes), and/or high-risk customer base”.
22. Six respondents out of 44 for “Impact of internationally agreed financial regulatory reforms (other than AML/CFT)” (e.g. capital requirements).

institution can have a potential spillover effects for other financial institutions in the jurisdiction, in particular in small jurisdictions.

54. While only four jurisdictions indicated that imposition of international sanctions was a driver in decline in foreign CBRs, this should be seen in conjunction with the responses from large international banks which indicated that they simply cannot conduct activities with institutions in sanction countries.[23]

55. From the provider (vostro account) perspective, consisting of a smaller number of authorities (14 respondents in total), many of the same concerns listed above are cited, be it that profit related concerns are not so prominent. Specifically, see Table 2 for the main causes/drivers indicated.

Table 2: Banking Authorities: Main causes/drivers of decline from the provider (vostro account) perspective

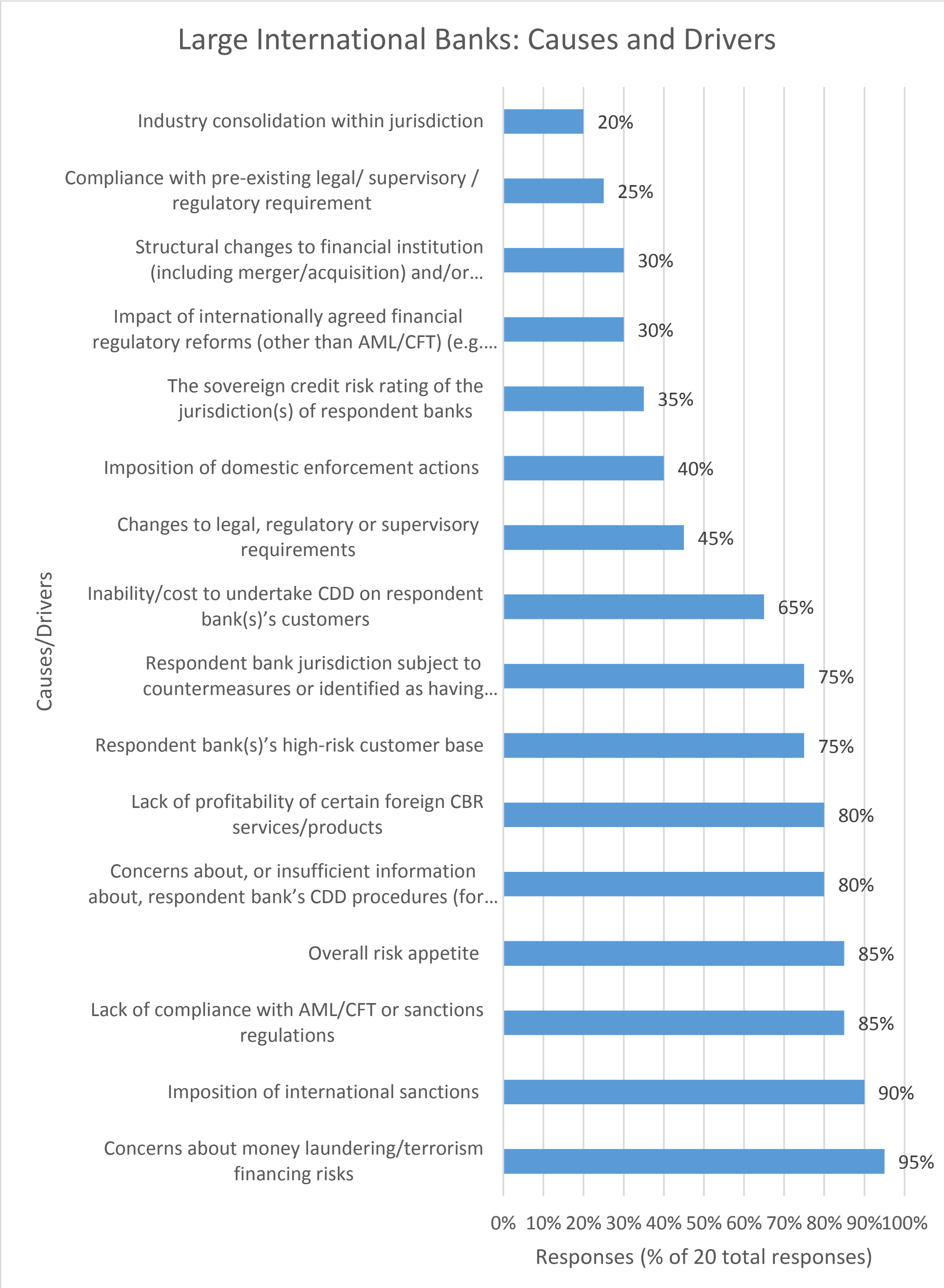
Main causes/drivers	Respondents (#)
Concerns about money laundering/ terrorism financing risks	12
Imposition of international sanctions	12
Jurisdictions identified as having strategic AML/CFT deficiencies by FATF or another international body	8
Foreign correspondent bank's lack of compliance with AML/CFT sanctions regulations	7
Overall risk appetite	6
Lack of profitability of certain foreign CBR services/products	5

II. Large international banks

56. For large international banks, AML/CFT and CDD/KYC related concerns topped the list of causes/drivers for terminating and/or restricting foreign CBRs. The banks' overall risk appetite and lack of profitability of certain foreign CB services/products also ranked high among the reasons for terminating and/or restricting CBRs. In follow up interviews, large banks also mentioned that they were worried about being "the last man standing" in a country other banks had exited because they considered it too high risk or not worth the cost. This was leading some to exit, merely because others were exiting, rather than being based on an individual assessment of the country's risk profile.

23. Three authorities that completed the survey and one authority that completed the survey as a commercial entity indicated that imposition of international sanctions was a driver in decline in foreign CBRs.

Figure 19: Large International Banks: Causes and Drivers

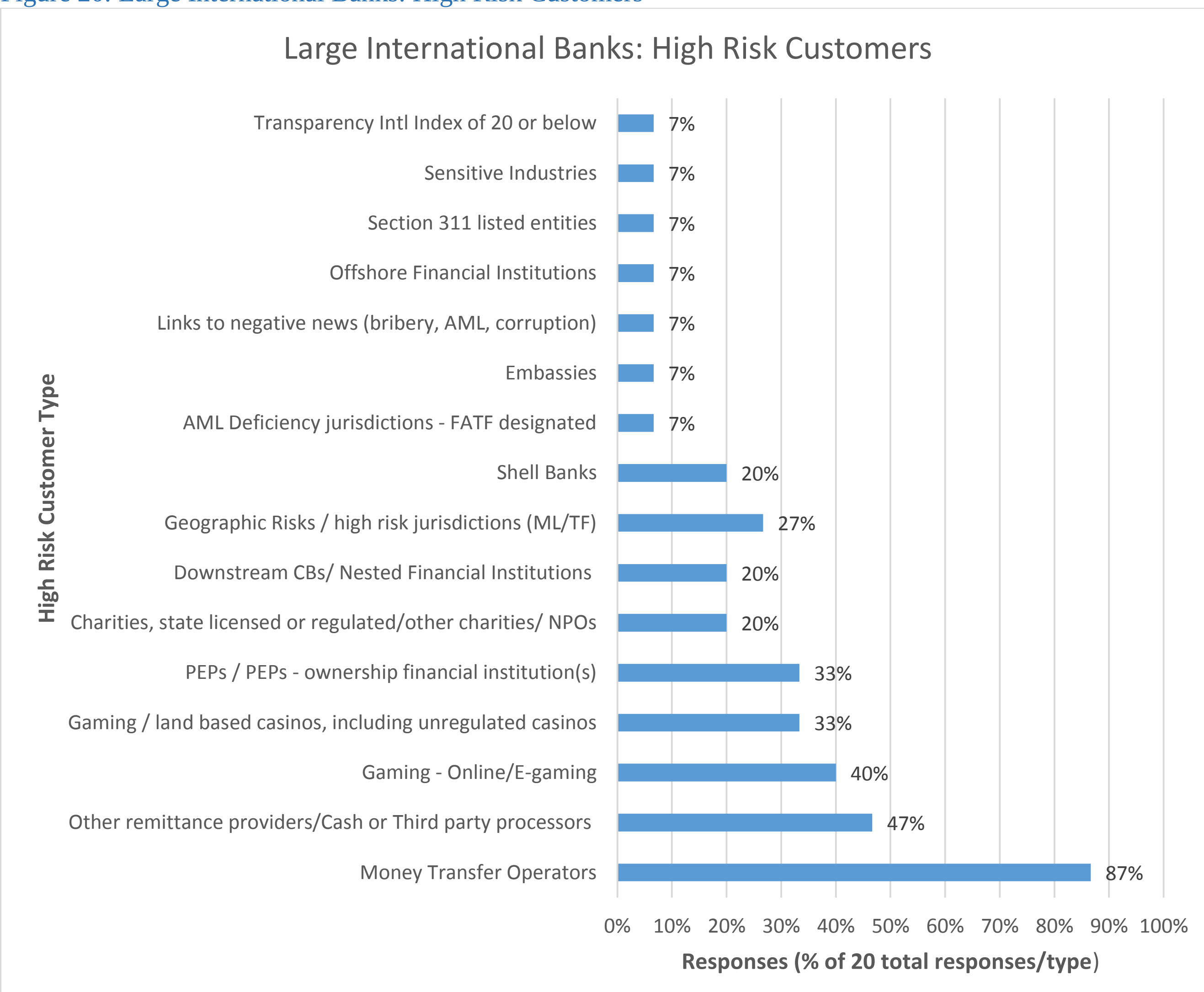


57. As far as the high risk customers are concerned, 13 out of the 15 banks that selected this as a driver noted that they considered MTOs to be an inherently high risk client group. While only five

banks specifically listed FATF designated jurisdictions as a basis for considering a client's risk, all banks indicated that their risk assessment of correspondent banking clients take into consideration the ML/TF risk levels of their client banks' jurisdiction. As noted above, concerns over the ML/TF risks of the foreign correspondent bank's jurisdiction was cited by 19 out of 20 banks and was the top cause/driver for termination of CBRs.

58. Only three banks mentioned having downstream correspondent banks as clients (that is to say offering correspondent banking services to a bank that would offer those services itself on to other banks) as high risk situation. However, it should be noted that at least one of the banks that did not provide a list of high risk client types is in the process of closing all accounts with downstream banks. An enforcement action against another bank also centered on the issue of nested accounts (see further discussion below under "nested accounts").

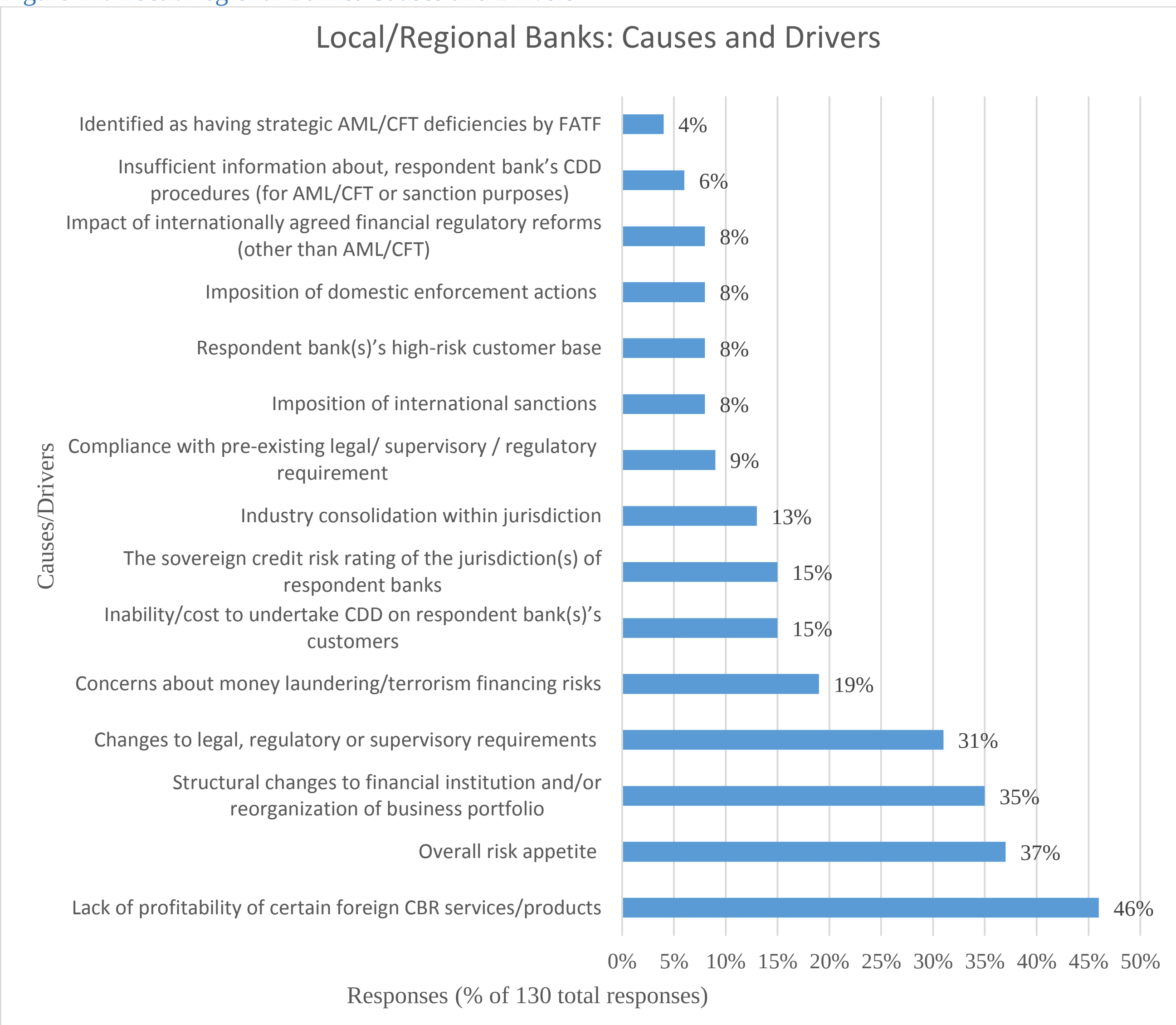
Figure 20: Large International Banks: High Risk Customers



III. Local/regional banks

59. For local/regional banks, as with the other categories of respondents, economic factors feature prominently as a reason that would explain the decline in foreign CBRs. While risk appetite is among the factors mentioned most often, AML/CFT risks and regulatory concerns do not come up as often as with the other categories of respondents. Since this group of respondents is the target of the withdrawal or restriction of foreign CBRs, it is possible that the correspondent bank does not in all cases deem it appropriate to share those concerns with the institution with which that it is severing/restricting its relationship. See also Annex 8.

Figure 21: Local/Regional Banks: Causes and Drivers



60. Of the one hundred and seventy respondents, eleven banks indicated their high-risk customer base as among the causes for terminating or restricting their CBRs. As in the other categories, the most cited high risk customer was Money Transfer Operators (MTOs).

61. See Table 3 for a comparison of the drivers of termination/restriction of foreign CBRs for all three different respondents – banking authorities, large international banks and local/regional banks.

Table 3 Comparing drivers of termination/restriction of foreign CBRs for different respondents

Comparing drivers of termination/restriction of foreign CBRs for different respondents			
	Banking Authorities (%)	**Large International Banks (%)**	**Local/Regional Banks (%)**
Lack of profitability of certain foreign CBR services/products	64	80	46
Overall risk appetite	55	85	37
Changes to legal, regulatory or supervisory requirements in correspondent's jurisdiction that have implications for maintaining CBRs	48	45	31
Structural changes to correspondent (including merger/acquisition) and/or reorganization of business portfolio	27	30	35
Concerns about money laundering/terrorism financing risks	48	95	19
Sovereign credit risk rating	7	35	15
Inability/cost to undertake CDD	36	65	15
Industry consolidation within jurisdiction of foreign financial institution	None	20	13
Imposition of enforcement actions	9	40	8
High-risk customer base	18	75	8
Imposition of international sanctions on jurisdiction or respondent	7	90	8
Impact of internationally agreed financial regulatory reforms	14	30	8
Compliance with pre-existing legal/ supervisory / regulatory requirement	18	25	9
Concern about, or insufficient information about respondent's CDD procedures	14	80	6
Respondent's jurisdiction subject to countermeasures or identified having strategic AML/CFT deficiencies by FATF	23	75	4
***N.B. The respondents were allowed to choose multiple options**			

e. Finding replacements/alternative arrangements

62. The ability of financial institutions in affected jurisdictions to find alternative correspondent banks varied, but the majority indicated they were able so far to find replacements. Of the 46 banking authorities who responded to this question—23 authorities indicated that their financial institutions had found replacements and 8 indicated that they had found alternative means. Thirteen banking authorities indicated that their banks had been unable to find replacements.

63. Authorities noted the impact of having to find replacements/ alternatives or arrangements on their financial institutions include:

- Increased costs[24] of finding replacements/alternatives.
- Time spent looking for replacements – noting that often, banks are given limited notice of termination of relationships (about 30 days) to find replacements.
- Newly imposed minimum thresholds below which the account would be closed.
- Higher (often due diligence) related costs in establishing the new CBR being passed on to the customer, and
- Sometimes terminating or restricting relationships with certain clients to be able to maintain access. Several small banks mentioned severing ties to MTOs to maintain access to their foreign CBRs.
- Several authorities noted particular difficulties with finding replacements in the US.

64. According to the results of the local/regional banks' survey, the ability of financial institutions to find replacement CBRs, or alternative means, varied across banks. A majority (54 percent) of local/ regional banks (92) responded that they were able to find replacement CBRs, or establish alternative arrangements to meet their needs. However, there were 10 local/regional banks (6 percent) that were unable to find replacement CBRs, or alternative means.

65. One local bank in a small international financial center, is extremely concerned and in danger at the time of the survey of shutting down operations. During follow-up calls with local banks, there were several other local banks that expressed the same fears of not being able to replace CBRs or finding alternative means, and being threatened to close down their business in the near future. The banks most affected tend to be the smaller banks in 'higher risk jurisdictions' or 'offshore financial centers'.

66. In terms of level of difficulty, a large majority (62 percent) of local/regional banks (56) responded that they easily found replacement CBRs, or alternative arrangements. However, there were 25 banks (28 percent) that mentioned that it was difficult, or somewhat difficult, to get replacement CBRs or find alternative means, with some banks indicating that it was expensive and time consuming to find replacement CBRs and that the terms and conditions were not comparable to the previous foreign CBRs. Some noted a substantial increase in pricing. Maintaining relationships however, can come at quite a steep price, with several mentioning, newly imposed minimum thresholds below which the account would be closed, higher (often due diligence) related costs being passed on to the customer, and sometimes terminating relationships with certain clients to be able to maintain access. One bank in a small offshore jurisdiction, *preemptively* closed all its relationships with MTOs, in order not to lose its access to USD clearing.

f. Diligence on the customer's customers (so-called KYCC) and Nested Accounts

67. As mentioned in the introduction, the surveys also sought to obtain information from banking authorities and large international banks on the extent to which they considered there to be an obligation to conduct due diligence on the customer's customer(s) (in the policy debate surrounding the issue

24. There are limited options available for replacements and alternative arrangements– and these are often more costly options, for example, an alternative means by financial institutions in one jurisdiction is to contract cash courier/ pick-up services. Furthermore, the process for onboarding and establishing new CBRs is costly, including the need for enhanced due diligence and other processes to be undertaken by the banks.

often referred to by shorthand as "KYCC" for "Know Your Customer's Customer")—in this case the customer(s) of the respondent bank. Since many who responded to the question appeared not to understand what was meant by so-called KYCC and provided only an outline of their AML/CFT system, an overview here of the responses received is not considered useful. Probably the first issue to clarify is what is meant by knowing your customer's customer(s) in the context of correspondent banking.

68. One of the main interests of a respondent bank in establishing a correspondent banking relationship is that it can offer cross border services to its customers—allowing them (the respondent's customers) to transact internationally. It is, in other words, really for the benefit of a third party, the customer of the respondent, that the service is then provided. The principle of due diligence with regards to correspondent banking is that the correspondent bank conducts due diligence and understands the business and internal controls of the respondent bank before establishing a correspondent banking relationship—and then monitors the relationship on an ongoing basis. It is the responsibility of the respondent bank to conduct due diligence of its customers, and the correspondent always checks the respondent bank's due diligence system and protocols very carefully, in order to be able to rely on them.

69. Typically therefore, the correspondent bank merely executes transactions ordered by a respondent, and does not conduct any further scrutiny on the underlying transaction. Furthermore it is not always possible to identify an underlying transaction—specifically when individual transfers are batched into one transfer, such as is the case for remittances for instances, when the bank does one transfer that aggregates a whole number of smaller individual transfers. The margins in correspondent banking are already thin—and the extra cost of conducting due diligence on every transaction processed for a respondent would surely make the whole business unprofitable. More fundamentally though, it goes against the logic of the relationship to have the correspondent redo what the respondent already did. That is their contractual relationship.

70. Pursuant to national AML/CFT and sanctions laws however, the correspondent bank may be under an independent obligation to apply sanctions provisions and to report suspicious transactions. [25] It will have automated systems in place that pick up possible hits against sanctions lists and apply certain algorithms to detect suspicious transactions (where it can identify individual transactions - see above). The question therefore is what to do when, in processing a payment for a respondent bank, one of those systems picks up on e.g., an originator or beneficiary that is on a sanction's list, or raises ML/FT concerns. Does the correspondent revert to the respondent and ask for and check the due diligence on the ultimate client—or does the correspondent rely on the respondent having conducted the necessary due diligence as per its contractual obligation?

71. Large international banks mentioned in follow up discussions that although conducting due diligence on the customer's customer is not, in most countries, an obligation that can be found in the

25. To be clear: under the international standard on anti-money laundering, this would not be the case. FATF Rec 16 on wire transfers, lays out the roles for the different banks involved in a wire transfer: the ordering, the intermediary and the beneficiary financial institution. The correspondent bank would typically be the intermediary financial institution processing a payment on behalf of the ordering institution. The Recommendation is quite clear about the responsibilities of the intermediary institution: It "should ensure that all originator and beneficiary information that accompanies a wire transfer is retained with it" and that it take "reasonable measures to identify cross border wire transfers that lack required originator or beneficiary information". Under this standard there is no obligation that the intermediary conduct any further scrutiny on the substance of the originator or beneficiary information.

law—banks do conduct such due diligence as a matter of practice in those types of cases—just to be on the safe side. It is not clear to such banks that reliance on the respondent's banks systems—and a showing of the checks that the correspondent has conducted on those systems—would be a sufficient defense if a correspondent is found to have let a sanctioned person conduct a transaction using its system. It would be useful if such clarity could be provided.

72. The need felt to perform due diligence on the customer of the foreign respondent bank depended on the risk profile of the respondent, which itself depends on various factors such as involved jurisdictions, the type of the correspondent bank relationship as well as on the services/products that are provided by the correspondent bank.

Nested accounts

73. A particular variation on this topic of customer's customer, is the so-called nested account. A nested account, also referred to as a "downstream correspondent", occurs "when a correspondent bank client provides correspondent services to other banks, domiciled inside or outside their country, to facilitate international products and services on behalf of the downstream correspondent's clients, e.g. when a regional savings bank offers correspondent services to the local savings banks in its area."[26] It is as it were, a respondent bank acting as a correspondent for another bank.

74. The more such nested accounts are inserted into the payment chain, the more tenuous (and more opaque) becomes the link between the institution finally processing the payment and the originator of that payment. In fact this is one of the concerns with the knock-on effect of the withdrawal from correspondent banking. Those whose relationships are being terminated and who can no longer establish directly relationships with large international banks may seek to establish nested relationship. While from the original correspondent bank's point of view it may have increased transparency in its own operations by severing its ties with the respondent in question, the system as a whole has become more opaque if that respondent is allowed to establish a nested relationship.

75. It is not clear whether in fact the withdrawal of foreign CBRs is resulting in an increase in nested relationships, but it is certainly a concern expressed by some respondents. Three of the large international banks specified that they considered nested/downstream correspondents to be high risk clients, because they lose sight of the ultimate customer and the diligence conducted on that person. While they do not consider themselves under an obligation to perform CDD on the customers of their respondents, they are in the process of implementing restrictions on the processing of nested transactions. They deem such steps necessary because of their inability to validate the CDD standards being applied by the nested account holder (the client of the respondent banks) on the ultimate customer. In other words, they consider the level of reassurance that the due diligence conducted on the end customer is not adequate.

26. See "Wolfsberg Anti-Money Laundering Principles for Correspondent Banking" p6, available at http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Correspondent-Banking-Principles-2014.pdf

V. Conclusions and Recommendations

76. The individual stories and anecdotes mentioned in the introduction, appear to be founded in reality. Several large international banks are withdrawing from a significant percentage of their foreign CBRs and there are sufficient indications from the different groups of respondents that this trend is real. Respondents—particularly from smaller jurisdictions—but also from some larger economies, from the Caribbean, Africa and Europe and Central Asia, and to a lesser extent East Asia and Pacific indicate there is a decline in CBRs. From the vostro (provider) perspective, MENA countries were also mentioned often (not all relevant MENA countries completed the survey). It is not clear whether this development has already reached its peak—or whether further large scale withdrawals are still to come.

77. As a result, smaller regional banks are facing challenges offering certain services, notably USD payment services, and their customers, particularly MTOs, are affected in their ability to access international payment systems. While in the large majority of cases, local/regional banks appear to be able to find alternatives and come to some arrangement, that can sometimes come at great cost: in purely monetary terms, in terms of the customer base of the respondent bank, in terms of time and effort spent finding replacements and in terms of the regional banks own risk having to rely on fewer foreign CBRs. The concentration of correspondent banking relationships could become a concern. Smaller banks in particular, are very concerned about being at the mercy of only one correspondent bank, who can set the terms at will. Moreover, in a very small number of cases the banks do not find replacements and they are about to go out of business. On the basis of those two considerations alone, policy action to address the situation appears to be justified.

78. Quite apart from that, it is not quite clear to what extent the local/regional banks whose relationships are being withdrawn are finding second and third-tier banks to meet their needs for foreign CBRs and the further effect on overall transparency. The concern is that while large international banks might be cleaning up their books and terminating relationships with higher risk customers, that risk is then moved to channels that are less transparent, and thus actually increasing overall risk. Though a number of respondents, including banking authorities, mentioned these concerns, neither the surveys, nor the follow up interviews were able to shed sufficient light upon the extent to which overall transparency is decreasing.

79. So there is a rationale for further action—but what intervention is useful or necessary at this time (as it is still unclear whether the decline will continue further)? As will have become clear, the withdrawal from foreign CBRs is a complex and manifold phenomenon that manifests itself in different ways and for different reasons. Some of those reasons are not susceptible to policy tweaks. Banks offer correspondent services for different reasons: many banks offer them only to support the cross selling of other products to respondent banks or to support the needs of corporate customers for cross border payments. If a large international bank decides to withdraw from a country and sever its foreign CBRs because there is no other business there to support, then it is not for any outside party to try and cajole the bank into maintaining them.

80. And even if a bank is in principle willing to do business, but decides not to because the compliance costs are too high or because the risk profile of the entity it is dealing with, is too high and not manageable, there will still be individual cases in which a bank is completely justified not doing so. There are risks that should not be taken.

81. The issue to consider is whether in other cases—particularly where applicable rules or facts and circumstances are unclear, but there is in principle a business and risk related rationale for engagement,

there is something that authorities or the banks themselves could do to encourage the establishment of a correspondent banking relationship. It is important to emphasize that this is a joint public-private responsibility that needs to be dealt with in partnership. Only such an approach with efforts by all actors, can help reverse the decline experienced in certain parts of the world.

82. Even between the submission of information in the surveys and some of the follow up interviews, several respondents noted that changes had taken place as far as correspondent banking in their institution or jurisdiction was concerned. Indications as to what may happen in the near future were mixed. Some respondents indicated the large scale withdrawal from correspondent banking was over- others indicated that much more is yet to come. This area of the international payments system is undergoing rapid change.

83. Therefore, the World Bank will continue to monitor developments over the next year, and seek to gather information from all relevant actors in this field to contribute to the international policy discussion surrounding this topic. Where possible, it will seek to provide more insight into the further effects on financial inclusion and economic activity resulting from the withdrawal of CBRs. Further work could include amongst others a more detailed examination of the effects of the withdrawal of CBR on the flows and costs of remittances and on the provision of trade finance (and possible economic cost thereof). In addition the following actions by supervisors, authorities and banks could contribute to improving the situation.

Supervisors should ensure banks follow a risk based approach

84. Whether justified or not, large international banks indicate that they are uncertain what the consequences would be if, through the provision of foreign CBR-services, they were facilitating the movement of tainted funds, or funds linked to a sanctioned jurisdiction, person or entity. They argue that, even when they have conducted a solid risk assessment and are dealing with the respondent institution accordingly, they can be penalized if that respondent institution has accepted funds from a money launderer or a sanctions evader. In that view, they need to get it right 100 percent of the time and are on the hook for every failure.

85. This strikes at the heart of a risk based approach. A risk based approach requires institutions to determine the risk level of a certain customer and take proportionate action to address that risk. A financial institution needs to have the systems in place to gather information to be able to determine the risk, and ensure it acts accordingly to address it. Those systems evolve according to the money laundering methods detected and cannot be foolproof. Thus, provided an institution can show it acted reasonably in determining risk and mitigating it, failures to detect individual instances of money laundering should not automatically trigger penalties.

86. An unequivocal statement from national supervisors that there won't be a zero tolerance approach for failures to detect money laundering and setting out the tenets for a reasonable risk assessment for establishing correspondent banking relationships, can provide banks with the comfort they say they are lacking at this moment. The mere fact that a bank dealt with tainted funds is not in itself sufficient to conclude that the bank in question "should have known". This also implies that the standard setter and the national AML/CFT policy makers clarify the acceptable level of risk tolerance.

87. The withdrawal of CBRs is also driven by legitimate risk-based decisions by correspondent banks, based on an individual risk assessment of their respondent banks. In such cases, making sure

that respondent banks improve their own AML/CFT internal controls and reduce their risk profile is paramount.

88. As noted earlier, banks may be completely justified withdrawing correspondent banking relationships. It should not, however, be conducted in a wholesale, categorical manner that terminates all relationships with certain categories of customer. The AML/CFT supervisor should verify this in its supervision. While the decision to establish a relationship is ultimately a commercial decision, wholesale de-risking is a sign that a bank is in fact not capable of conducting a proper risk assessment-based on an individual appraisal of the situation.[27] In addition it may give rise to concerns about breaches of consumer protection or competition legislation.[28]

Supervisors and other authorities should ensure the effective implementation of international AML/CFT standards

89. Concerns about the implementation of AML/CFT obligations by countries and jurisdictions featured prominently among the reasons large international banks are withdrawing from correspondent banking relationships. All jurisdictions must therefore ensure that the legal and regulatory AML/CFT framework is in place and that their financial institutions are being effectively supervised for compliance with those obligations. For jurisdictions that believe they are unfairly being considered high risk because of actual or perceived AML/CFT compliance lapses, it is especially important to demonstrate to their counterpart regulators, to foreign financial institutions and to the public at large the reforms that have been implemented or to correct misperceptions. Particularly for small jurisdictions, compliance lapses – actual or alleged – by even one financial institution can have a potential spillover effects for other financial institutions in the jurisdiction.

90. For financial institutions, especially the smaller ones deemed more vulnerable to having their relationships terminated solely on the basis of lack of sufficient business diversity and volume, effective compliance with AML/CFT standards is essential. Internal controls systems need to be in place. Staff from both the business lines and compliance units should be properly trained to know and be in line with both the AML/CFT requirements of their respective jurisdictions and those of their CBR service providers' jurisdictions.

91. The World Bank has a long track record providing technical assistance to countries to put in place AML/CFT systems, to implement them effectively and to train relevant authorities, including to conduct ML/FT national risk assessments. Countries are encouraged to avail themselves of this assistance to improve their AML/CFT systems.

27. See in that sense the statement from the Reserve Bank of New Zealand: "It seems unlikely, but if banks are using blanket de-risking itself as a procedure to manage and mitigate those risks, then the Reserve Bank would consider that an inadequate means of complying with their obligations under the AML/CFT Act.", available at http://www.rbnz.govt.nz/news/2015/6004856.html

28. See in that sense the statement from the Financial Conduct Authority in the UK: "(…) we now consider during our AML work whether firms' de-risking strategies give rise to consumer protection and/or competition issues." available at https://www.fca.org.uk/about/what/enforcing/money-laundering/derisking. Further, there may be other types of protection- e.g. non-discrimination provisions. The second European Payment Services Directive contains provisions that address account denials and closures of accounts of payment service providers, including money remitters. It requires European Member States to ensure that credit institutions provide payment service providers with non-discriminatory and proportionate access to payment accounts. The access must be extensive enough to allow payment institutions to provide payment services in an unhindered and efficient manner. Where any payment service provider is rejected, the credit institution must provide the competent authority with duly motivated reasons for its decision.

Supervisors should provide clarity on the extent of due diligence on the customer's customer (KYCC obligations)

92. Along those same lines, supervisors should provide detailed guidance on the extent to which, or the circumstances under which, banks should conduct risk-based due diligence on the customers of a respondent bank, the so-called "know-your-customer's-customer" obligation, and what it would entail. In other words, supervisors should set out under what conditions, if any, it is incumbent upon a correspondent bank to go further than only conducting due diligence on the respondent bank. Given the exceptional nature of this obligation, the supervisor should provide clear risk-based guidance on the circumstances under which it might apply. If the supervisor does not consider it ever to apply to its institutions, then it should say so clearly- leaving no room for misinterpretation or misunderstanding.

93. Concern about the respondent's customer also underlies the high-risk customer base of the respondent bank as a driver for withdrawing from CBRs. Large international banks rated this factor third and nearly all of the banks that further specified classes of customers that they considered high risk indicated that MTOs fell into this category. The current work in FATF on guidance to MTOs is very welcome, but will only usefully contribute to this discussion if it leads to more clarity on risk differentiation. Well regulated and supervised MTOs should not be systematically considered as high risk. Increased communication and outreach on supervisory practices and actions, particularly in the case of MTOs, could further contribute to more differentiated risk decision making by banks.

Improve the information position of large international/correspondent banks

Banks should use technical tools to limit information challenges and lower costs

94. A lack of knowledge and understanding of the entity that is seeking to establish a foreign CBR contributes to a risk averse attitude. Conducting thorough due diligence of a prospective respondent can be expensive. The more readily accessible the relevant information, the lower those costs. The CPMI will shortly be issuing a report on the use of enhanced technological tools to limit information challenges and use facilities offered by third parties to have the relevant information promptly available and at much lower cost. This report will be an important contribution to this debate and its recommendations on the use of KYC utilities and the Legal Entity Identifier are endorsed here.[29]

Increase information exchange between correspondent banks and respondent banks and supervisory authorities

95. A further source of information for the large international banks that are providers of correspondent banking services are the respondent banks themselves. Banks noted that there is greater communication among the compliance staff of provider and client banks and in a more direct manner. In this regard, it is significant that for example, Mexico has adopted legislation which removes legal barriers to information sharing by its domestic banks with their foreign correspondent banks. Countries should consider how they might allow for such exchange of information without breaching data protection and privacy rules.

96. In addition the setting up of working groups consisting of banking authorities and major correspondent banks in the most relevant jurisdictions where higher restrictions are being imposed was mentioned by one respondent. Such contacts have allowed all involved to reach a common understanding on the interpretation and implementation of regulatory requirements imposed by the

29. See Annex 11 for the current list of recommendations included in the consultative CPMI report.

foreign jurisdiction and to promote the development of best practices that foreign correspondent and domestic respondent banks should follow to maintain CBRs.

97. One supervisory authority suggested that correspondent banks reach out to the supervisor of a prospective respondent bank, if there are concerns about the risk level of that bank. Given confidentiality requirements, likely an explicit approval from the respondent bank to allow the supervisor to provide the relevant information would be required. It would appear in the bank's interest though to give its approval for that transmission of information. Correspondent banks should consider foreign supervisors as a potential source of information on their respondent banks. In addition, supervisors should coordinate to clarify regulatory expectations and facilitate international exchange of information.

Banking authorities of respondent banks should provide information on the country risk profile and how higher risks are being addressed

98. In assessing the risk of a prospective respondent bank, correspondent banks include consideration of the risk profile of the country in which it is based. The international standards on money laundering and terrorism financing oblige countries to assess their risk and to take action to mitigate the identified risks. Many countries are currently in the process of conducting such risk assessments and drawing up their action plans. Though countries are not obliged to publish this risk assessment, it is recommended that countries do so, both to demonstrate their commitment to AML/CFT and to inform outsiders of the risks they face and their plans for mitigating them. Moreover, publication of such an assessment provides an opportunity for the country to highlight how it is implementing AML/CFT standards. Indeed a number of authorities mentioned that they intended to use their national risk assessment as part of their policy to address the withdrawal of correspondent banking and problems faced by their remittance companies. The World Bank has developed a capacity building tool for conducting a national risk assessment, which has so far been delivered in 40 countries or jurisdictions, and stands ready to assist countries in this process.

Correspondent banks should take into account respondent's business needs when deciding to terminate a foreign CBR

Provide transparency on reasons for termination

99. Several respondents from smaller banks indicated that the reasons for termination of a CBR were not always provided, making it hard for them to understand why a relationship was being terminated and how to improve their situation. Possibly this fact also explains why money laundering and financial integrity related concerns featured less prominently among the reasons provided by local/regional banks as driving de-risking than it featured among the reasons provided by large international banks. In order to enable the smaller banks to address possible outside concerns on AML/CFT, large international banks are encouraged to be more transparent about the reasons for terminating a foreign CBR relationship.

Consider longer notice periods

100. Many of the smaller respondent banks mentioned that when their relationships are terminated they are sometimes given only 30 days after the correspondent bank announces its intention to terminate the relationship. For those banks maintaining only a few foreign CBRs, that can make it very hard to find alternatives. Even when banks have an existing CBR to which they can shift their business, time is needed to arrange for increase in credit and number transactions that the existing CBR is able and

willing to provide. The longer notice period is of greater importance in smaller jurisdictions or where options for alternatives are limited. Moreover, the loss of a foreign CBR without replacement can result in only a few channels being available to a respondent bank, thus becoming dangerously dependent on only a few or sometimes just one institution. In order to provide smaller banks with more room for maneuver and more time to undertake a careful review of the options available to them, large international banks are encouraged to extend their notice period to at least three months- preferably more, and could during that period place limits as described below.

Consider placing limits instead of terminating altogether

101. Large international banks that are the providers of foreign correspondent banking services should consider placing appropriate credit and other limits/conditions on their client banks, rather than terminating the relationships. Placing conditions on a relationship is considered preferable to straightforward termination and a trial period can be a pragmatic and efficient way to deal with possible AML/CFT related concerns.

Consider establishing relationships at the parent level

102. In order to meet the large international banks' requirements for business volume/size, some banks indicated they had established the CBR at the parent level, when the correspondent was unwilling to establish it at the subsidiary level because of the low volume. In that way they were able to consolidate the volume of transactions from the various branches and subsidiaries in other jurisdictions and improving the risk/reward determination. It is recommended that other banks also explore the possibility of this solution when volumes of an individual subsidiary bank are too low to justify the establishment of a CBR.

Authorities should monitor the status of correspondent banking in their jurisdiction

103. Finally, though not directly addressing the drivers of de-risking, it would improve the overall ability of governments and private actors to take action if countries were to more systematically gather information on the status of foreign CBRs. The surveys overall met with a positive response but not all jurisdictions responded, and among the respondents, a not insignificant number indicated that they lacked systematic data to be able to complete the survey.

104. Authorities and financial institutions that do not already do so, should consider taking a proactive approach in communicating with one another to monitor foreign CBR related developments in their own jurisdiction and jurisdictions of their CBR counterparts, as well as developments at the regional and global levels. This holds especially true for smaller jurisdictions, with fewer and smaller institutions which appear to be most susceptible to trends in CBRs – since they cannot always meet the business volume/profitability requirements of the large international banks that are their correspondent banking products/services providers. For the smaller institutions and jurisdictions, even the loss of a small number of CBRs can have a greater impact for all concerned. Authorities should focus their monitoring efforts on the banks with very few or only one or two CBRs, that are heavily dependent, and at the mercy of, the correspondent banks who can set the terms almost at will. And where necessary assist them in their efforts to establish or maintain foreign CBRs. In addition it would be useful to monitor to what extent banks whose foreign CBRs are being terminated or restricted, are finding alternatives with second and third tier foreign banks, or are establishing connections with other banks to use them as their gateway for foreign CBR services in so-called nested CBRs.

Annex 1: Method followed

1. To initiate the fact gathering exercise, the WB and the FSB organized a roundtable meeting in Washington DC at the margins of the WB/IMF Spring Meetings, on April 16, 2015. The objective of this event was to discuss the size, scope and drivers of decline in correspondent banking and other cross-border financial services and possible policy responses. Governors and other regional and national banking authorities, as well as representatives from the Financial Action Task Force (the standard setter on Anti-Money Laundering and Combating the Financing of Terrorism – AML/CFT) and the World Economic Forum, the Basel Committee on Banking Supervision and the Committee on Payments and Market Infrastructures (CPMI) participated in that event. On the basis of the observations made at that meeting and of the media reports mentioned earlier, the WB worked with FSB and CPMI to put together two surveys: one for banking authorities and one for large international banks. A third survey was designed specifically for smaller local (i.e. presence in one jurisdiction) and regional banks to try and ascertain the impact of the decline trend on these financial institutions.

2. Beginning in June 2015 and through October 2015, the surveys were sent, on behalf of the CPMI, the FSB and the WB, to 3 groups of respondents:

- Central banking authorities of jurisdictions, including those which were believed to be home to banks that are themselves terminating relationships, as well as jurisdictions home to banks whose relationships are being terminated by other banks (including as identified in the results of the large international banks survey), and/or members of the FSB Regional Consultative Groups. In addition to completing the survey, these authorities were also asked to identify five to ten banks in their jurisdiction for whom the authorities believed that the topic of a withdrawal from correspondent banking might be particularly relevant.
- Large international banks which were allegedly withdrawing from foreign correspondent banking on a significant scale (and some others who are among the top providers of correspondent banking services for whom the trend was unclear from public reports), and primarily geared towards obtaining information on their vostro accounts (that is to say, those *providing* a service to another bank), and
- Local/regional banks whose home jurisdictions were identified in the authorities and large international banks surveys as affected by the withdrawal of correspondent banking and whose contact information was provided by their banking authorities. This survey was primarily geared towards obtaining information on their nostro accounts (that is to say those where they are receiving a service from another bank). Beyond gathering information on size and drivers, the objective of this survey was specifically to find out information on the ability of banks to find alternatives when their relationships had been terminated or restricted.

3. Extensive outreach was conducted to clarify some of the responses received. Because the responses to questions on possible policy actions and on finding alternative correspondent banking relationships were not always complete, a further series of follow-up interviews by telephone was conducted from late September to mid-October with relevant bank and country respondents.

Annex 2: Participating Banking Authorities[30]

Jurisdictions		
Afghanistan	Grenada / ECCB	Paraguay
Albania	Guatemala	Peru
Andorra	Guyana	Philippines
Anguilla / ECCB[1]	Haiti	Russian Federation
Antigua and Barbuda	Hong Kong SAR, China	Saudi Arabia
Argentina	India	Seychelles
Armenia	Indonesia	Singapore
Australia	Italy	South Africa
Bahamas, The	Jamaica	Spain
Bahrain	Japan	St. Kitts and Nevis / ECCB
Bangladesh	Jordan	St. Lucia / ECCB
Barbados	Kazakhstan	St. Vincent and the Grenadines / ECCB
Bermuda	Kenya	Sudan
Bolivia	Korea, Republic of	Switzerland
Brazil	Latvia	Tanzania
British Virgin Islands	Lebanon	Thailand
Bulgaria	Liechtenstein	Trinidad and Tobago
Canada	Lithuania	Tunisia
Cape Verde	Macedonia, former Yugoslav Republic of	Turkey
Cayman Islands	Maldives	Uganda
Chile	Mauritius	Ukraine
China	Mexico	United Kingdom
Colombia	Moldova	United States
Comoros	Montenegro	Uruguay
Costa Rica	Montserrat / ECCB	Vietnam
Dominica / ECCB	Morocco	West Bank and Gaza
Dominican Republic	Namibia	Zimbabwe
Ecuador	Netherlands	
Fiji	New Zealand	
France	Nigeria	
Georgia	Pakistan	
Greece	Panama	

Note: [1] Eastern Caribbean Central Bank.

[30] These jurisdictions agreed to be listed as participants to the survey. In addition one jurisdiction completed the questionnaire as a commercial entity. By agreeing to be listed, the jurisdictions are not implying agreement or endorsement of any of the findings or conclusions contained herein.

Annex 3: Banking Authorities- Regional breakdown

Changes in the scale and breadth of their foreign correspondent banking relationships, including the number of nostro accounts held.

Outreach: Banking Authorities						
Region	**Survey sent out (#)**	**Survey completed (#)**	**No completed survey, provided bank contact information only (#)**	**Survey completed as a commercial entity (#)**	**Unable to complete- lack of data (#)**	**No response (#)**
Africa	26	11	6	1	n/a	8
Response rate: 69%						
East Asia & Pacific	19	12	1	n/a	1	5
Response rate: 74%						
Europe & Central Asia	18	13	1	n/a	n/a	4
Response rate: 78%						
Latin America and Caribbean	35	32	1	n/a	n/a	2
Response rate: 94%						
Middle East & North Africa	19	7	5	n/a	n/a	7
Response rate: 63%						
South Asia	7	5	1	n/a	n/a	1
Response rate: 86%						
Rest of World	13	11	1	n/a	1	n/a
Response rate: 100%						

Banking Authorities- Regional breakdown: Changes in the scale and breadth of their foreign correspondent banking relationships, including the number of nostro accounts held.					
Region	**Significant decline**	**Some decline**	**No significant change**	**Significant increase**	**Unknown**
Africa Number of Responses (#) (Out of 12 respondents)	5	1	5	1	n/a
Percentage (%)	42%	8%	42%	8%	n/a
Europe & Central Asia Number of Responses (#) (Out of 13 respondents)	4	5	3	n/a	1
Percentage (%)	31%	38%	23%	n/a	8%
East Asia & Pacific Number of Responses (#) (Out of 12 respondents)	2	3	5	n/a	2
Percentage (%)	17%	25%	42%	n/a	16%
Latin America and Caribbean Number of responses(#) (Out of 32 respondents)	16	3	9	1	3
Total (%)	50%	10%	28%	3%	9%
Middle East & North Africa Number of Responses (#) (Out of 7 respondents)	1	4	2	n/a	n/a
Percentage (%)	14%	57%	29%	n/a	n/a
South Asia Number of Responses (#) (Out of 5 respondents)	1	2	2	n/a	n/a
Percentage (%)	20%	40%	40%	n/a	n/a
Rest of World Number of Responses (#) (Out of 11 respondents)	3	n/a	4	n/a	4
Percentage (%)	28%	n/a	36%	n/a	36%

Authorities Survey: Overall trend

Trend in foreign CBRs	Responses (#)	Responses (%)
Increased Significantly	2	2
Declined Significantly	32	35
Some Decline	17	19
No Significant Change	30	33
Unknown	9	10
No Response	1	1
Total	**91**	**100**

Annex 4: Local/ Regional Banks - Outreach/ Completed Surveys

Local/Regional Banks Invited (#)	433
Local/Regional Bank Surveys Completed	170
Jurisdictions of Local/ Regional Banks Completed	61
Completed Survey %	39%

Jurisdiction Completed Surveys Breakdown			
Country/Jurisdiction	**Completed Survey Bank Responses**	**Country/Jurisdiction**	**Completed Survey Bank Responses**
Albania	2	Kenya	5
Andorra	4	Kuwait	5
Angola	1	Latvia	6
Anguilla	1	Liechtenstein	3
Antigua	1	Lithuania	1
Armenia	2	Macedonia FYR	6
Bahamas	2	Maldives	4
Bahrain	1	Mali	1
Barbados	3	Mauritius	2
Belarus	2	Mexico	2
Belize	1	Montenegro	3
Bermuda	3	Namibia	6
Bulgaria	1	Niger	1
Burkina Faso	2	Nigeria	3
Cambodia	5	Panama	1
Cape Verde	5	Paraguay	1
Cayman Islands	3	Peru	4
Cyprus	3	Qatar	4
Dominican Republic	1	Seychelles	1
Georgia	5	Sri Lanka	3
Germany	1	St. Lucia	1
Greece	4	St. Vincent & Grenadines	1
Guatemala	1	Suriname	6
Guyana	2	Thailand	2
Haiti	1	Trinidad	2
Iraq	1	Uganda	5
Israel	2	UK	3
Ivory Coast	1	Ukraine	2
Jamaica	4	United Arab Emirates	1
Jordan	6	West African Regional Bank	1
		Zimbabwe	13
		Totals	**170**

Annex 5: Banking Authorities - Jurisdictions of terminations/restrictions

Jurisdiction	Responses (#)	Responses (% of 43 total respondents)
United States[31]	36	84%
United Kingdom	18	42%
France	9	21%
Germany	8	19%
Canada	5	12%
Italy	5	12%
Spain	5	12%
European Union	4	9%
Switzerland	4	9%
Netherlands	3	7%
Australia	2	5%
Belgium	2	5%
China	2	5%
Ireland	2	5%
Hong Kong SAR, China	2	5%
Sweden	2	5%
United Arab Emirates	2	5%
Bahrain	1	2%
Guernsey	1	2%
Japan	1	2%
Luxembourg	1	2%
Portugal	1	2%
Saudi Arabia	1	2%

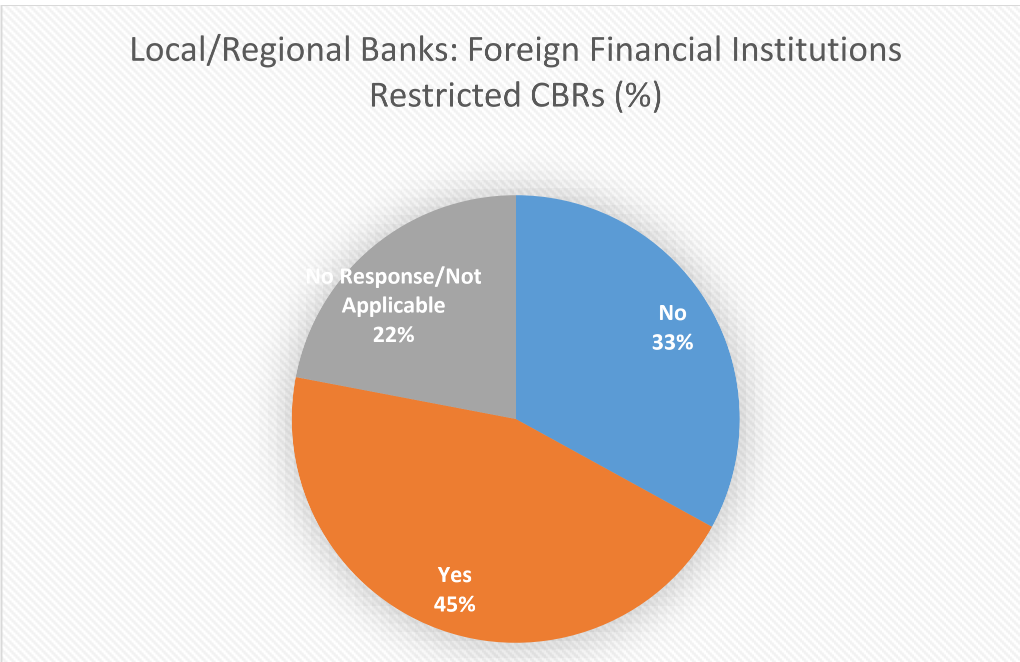
[31] This has to be understood in the context of the US being the largest provider of foreign CBRs.

Annex 6: Local/Regional Banks: List of Jurisdictions – Termination and restrictions of CBRs

List of Jurisdictions - Terminated CBRs		
Jurisdictions mentioned by Respondents	**Responses (#)**	**Responses (%)**
US[32]	66	67%
UK	30	30%
Switzerland	14	14%
Canada	13	13%
Germany	13	13%
France	8	8%
Netherlands	8	8%
South Africa	8	8%
Europe	5	5%
Australia	5	5%
Europe	5	5%
Sweden	5	5%
Austria	4	4%
Belgium	4	4%
Hong Kong SAR, China	4	4%
Italy	3	3%
Norway	3	3%
Russian Federation	3	3%
Cyprus	2	2%
Spain	2	2%
Botswana	1	1%
Caribbean	1	1%
Denmark	1	1%
Greece	1	1%
India	1	1%
Japan	1	1%
Latvia	1	1%
Luxembourg	1	1%
Mauritius	1	1%
New Zealand	1	1%
Singapore	1	1%
Turkey	1	1%

[32] This has to be understood in the context of the US being the largest provider of foreign CBRs.

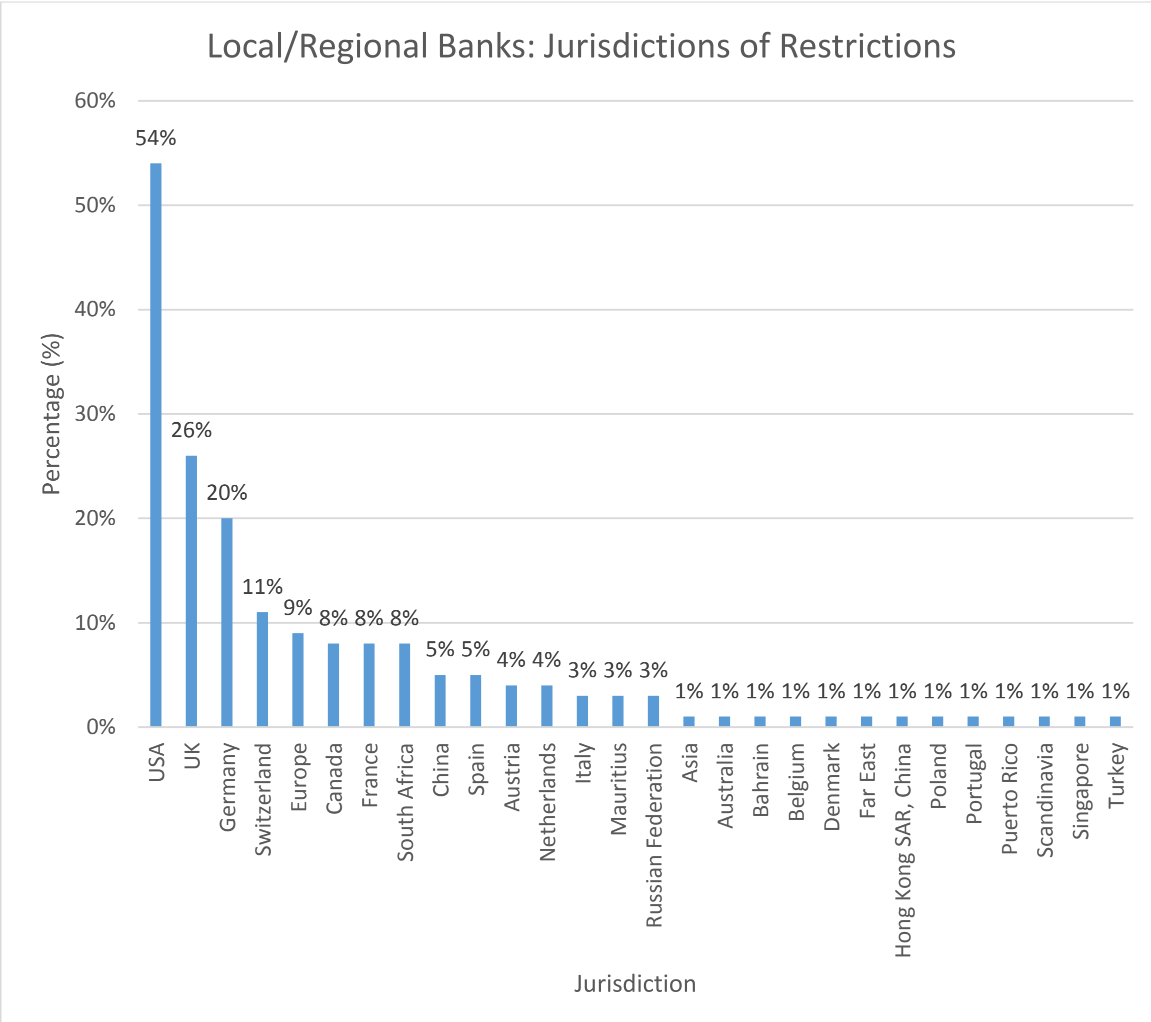
Foreign FI Restricted Size/Scope of CBRs	
	Responses (#)
No	56
Yes	76
No Response/Not Applicable	38
Total Responses	**170**



List of Jurisdictions - Restricted CBRs

Jurisdictions mentioned by Respondents	Responses (#)
US[33]	41
UK	20
Germany	15
Switzerland	8
Europe	7
Canada	6
France	6
South Africa	6
China	4
Spain	4
Netherlands	3
Austria	3
Italy	2
Mauritius	2
Russian Federation	2
Australia	1
Hong Kong SAR, China	1
Portugal	1
Bahrain	1
Belgium	1
Scandinavia	1
Poland	1
Asia	1
Far East	1
Denmark	1
Turkey	1
Singapore	1
Puerto Rico	1

[33] This has to be understood in the context of the US being the largest provider of foreign CBRs.


Local/Regional Banks: Jurisdictions of Restrictions
Percentage (%)
60%
50%
40%
30%
20%
10%
0%
54%
26%
20%
11%
9%
8% 8% 8%
5% 5%
4% 4%
3% 3% 3%
1% 1% 1% 1% 1% 1% 1% 1% 1% 1% 1% 1% 1%
USA
UK
Germany
Switzerland
Europe
Canada
France
South Africa
China
Spain
Austria
Netherlands
Italy
Mauritius
Russian Federation
Asia
Australia
Bahrain
Belgium
Denmark
Far East
Hong Kong SAR, China
Poland
Portugal
Puerto Rico
Scandinavia
Singapore
Turkey
Jurisdiction

Annex 7: Banking Authorities – Causes/ Drivers of termination/restriction of foreign CBRs

Cause/Driver	Responses (#)	Responses (% - 44 total respondents)
Lack of profitability of certain foreign CBR services/products	28	64%
Overall risk appetite of correspondent	24	55%
Changes to legal, regulatory or supervisory requirements in correspondent's jurisdiction that have implications for maintaining CBRs	21	48%
Concerns about ML/TF risks	21	48%
Inability/ cost for correspondent to undertake CDD on respondents' customers	16	36%
Structural changes to correspondent (including merger/acquisitions) and/or reorganization of business portfolio	12	27%
Jurisdiction identified as having strategic AML/CFT deficiencies by FATF (or other international body)	10	23%
Compliance with pre-existing legal/ supervisory / regulatory requirement by correspondent	8	18%
High-risk customer base of respondent	8	18%
Concerns about, or insufficient information about, respondent's CDD procedures (for AML/CFT or sanctions purposes)	6	14%
Impact of internationally agreed financial regulatory reforms (other than AML/CFT) (e.g. capital requirements)	6	14%
Imposition of enforcement actions by the domestic authority on respondent	4	9%
Imposition of international sanctions	3	7%
Sovereign credit risk rating	3	7%

Annex 8: Local/Regional Banks – Causes/ Drivers of termination/restriction of foreign CBRs

Causes/Drivers of termination/restriction of foreign CBRs by foreign financial institutions	**Responses (#)**	**Responses (%)**
Lack of profitability of certain foreign CBR services/products	60	46%
Overall risk appetite	48	37%
Structural changes to foreign financial institutions	45	35%
Changes to legal, regulatory or supervisory requirements	40	31%
Concerns about ML/TF risks	25	19%
Sovereign credit risk rating	19	15%
Inability/cost to undertake CDD on respondent customers	19	15%
Industry consolidation	17	13%
Enforcement actions by Domestic Authority	11	8%
High risk customer base	11	8%
International Sanctions	10	8%
Impact of internationally agreed financial regulatory reforms	10	8%
Compliance with pre-existing legal/ supervisory / regulatory requirement	10	8%
Insufficient information about respondent's CDD procedures	8	6%
Jurisdiction identified as having "Strategic AML/CFT deficiencies" by FATF	5	4%
***N.B. The respondents were allowed to choose multiple options**		

Annex 9: Large International Banks – Products/services affected

Product/Service	Significantly reduced (#)	Moderately reduced (#)	Total - Significantly / Moderately reduced (#)	Total - Significantly / Moderately reduced (%)
Check Clearing	5	7	12	60%
Clearing and Settlement	1	5	6	30%
Cash Management Services	2	2	4	20%
International Wire Transfers	1	2	3	15%
Investment Services	0	3	3	15%
Foreign Exchange Services	0	2	2	10%
Lending	0	2	2	10%
Trade Finance	1	0	1	5%
Structured Finance/Foreign Investments	0	1	1	5%

Annex 10: Client Segment Impact

Authorities – Client Impact

Money Transfer Operators and Other Remittance Companies and Service providers: 39% percent of respondent authorities noted a significant or moderately significant decline in the MTOs clients as a group. Thirty-one percent of respondent authorities noted that there was a significant or moderately significant decline in other remittance companies/service providers.

Client segments most affected by the decline of foreign CBRs (39 total respondents)					
Client segment	**Significant**	**Moderately Significant**	**Insignificant / No Impact**	**Not applicable/ Unknown**	**Total - Significantly/Moderately affected (%)**
Money Transfer Operators (MTOs)	9	6	9	13	**38%**
Other Remittance companies/service providers	7	5	9	15	**31%**
Small and medium domestic banks	8	9	7	11	**44%**
Small and medium exporters	4	6	8	15	**26%**
Others - Specify					
Retail Customers (Students, Foreign Workers, Businessmen etc.)	1	1			
International Business Companies		1			
E-gaming/Casino types of business	2				
Defense Industry		1			
Adult Industry		1			
Foreign exchange services like cambio	1				

Local/Regional Banks and Client Impact

Please note that local banks that indicated decline in their overall CBRs as well as a small number of banks that did not indicate overall decline responded to the question regarding impact on client segments.

The respondents indicated that money transfer operators (MTOs) and other remittance companies/service providers are most affected; however, a not insignificant number of banks also indicated impact to their clients who are small and medium exporters and small and medium domestic banks. Respondents also specified other types of clients/client segments including *casas de cambios* (money exchange houses), importers and PEPs.

Client Segments	Significant Impact	Moderate Impact	Insignificant/No Impact	Unknown	Significantly and Moderately Affected (%)
Money Transfer Operators (MTOs) and Other remittance companies	47	30	110	17	55%
Small and medium exporters	26	17	66	3	31%
Small and medium domestic banks	11	12	72	9	16%
Others - Cambios Operators (Money Exchange Houses)	4	0	0	0	3%
Others - Corporate clients (exporters, tour operators, food and drink industries)	2	0	0	0	1%
Others - Importers	2	0	0	0	1%
Others - PEPs	1	0	0	0	1%
Others - Financial Institutions (Investment Services, FX)	0	1	0	0	1%
Total Responses as per Impact	93	60	248	29	

Annex 11: Recommendations included in Consultative Report Correspondent Banking published by the CPMI[34]

• **Recommendation on the use of KYC utilities:** The use of KYC utilities in general - provided that they store at least a minimum set of up-to-date and accurate information - can be supported as an effective means to reduce the burden of compliance with some KYC procedures for banks active in correspondent banking business. Relevant stakeholders (eg the Wolfsberg Group) may review the templates and procedures used by the different utilities and identify the most appropriate data fields to compile a data set that all utilities should collect as best practice and that all banks have to be ready to provide to banks which require the information.

• **Recommendation on the use of the LEI in correspondent banking:** In addition to the general promotion of LEIs for legal entities, 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. In a cross-border context, this measure is ideally to be coordinated and applied simultaneously in a high number of jurisdictions. In addition, authorities and relevant stakeholders (eg the Wolfsberg Group) may consider promoting BIC to LEI mapping facilities which allow for an easy mapping of routing information available in the payment message to the relevant LEI.

• **Recommendation on information-sharing initiatives:** The work already conducted by the authorities with responsibility for AML/CFT (i.e. the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision AML/CFT Expert Group (AMLEG)) is very much appreciated. It is recommended that the FATF and AMLEG be invited to: (i) provide additional clarity on due diligence recommendations for upstream banks, in particular to what extent banks need to know their customers' customers ("KYCC"); (ii) further clarify data privacy concerns in the area of correspondent banking; and (iii) detail, to the extent possible, the type of data that information-sharing mechanisms could store and distribute in order to be a useful source of information. In order to facilitate compliance with FATF customer due diligence recommendations, (i) the use of information-sharing mechanisms (if they exist in a given jurisdiction and data privacy laws allow this) for knowing your customers' customers could be promoted as the first source of information by default, which (ii) could be complemented bilaterally with enhanced information should there be a need. In order to support information-sharing in general, the respondent bank may include provisions in its contractual framework with its customers (eg in the terms and conditions or in a supplementary agreement) which allow the bank to provide such information on request to other banks for AML/CFT compliance purposes.

• **Recommendation on payment messages:** It is recommended that the relevant stakeholders determine whether the MT 202 COV payment message is as efficient and effective as intended or whether relying only on the MT 103 and the serial processing method would better serve the needs of clients, the industry and law enforcement in light of the fee structure, technological changes and payment capabilities for processing correspondent banking payments. The Wolfsberg Group seems to be the most appropriate body to review the issue and to initiate a recommendation in this field and lead any consequential changes if required.

34. Available at http://www.bis.org/cpmi/publ/d136.pdf.