DE-RISKING UPDATE
DECEMBER 2023

The Caribbean Financial Action Task Force (CFATF) is an organisation of states and territories of the Caribbean basin which have agreed to implement common countermeasures against money laundering and terrorism financing.

For more information on the work of the CFATF, visit www.cfatf-gafic.org

Contents

GLOSSARY

Abbreviation	Meaning
ASBA	Association of Supervisors of Banks of the Americas
AML	Anti-Money Laundering
BO	Beneficial Owner
CAB	Caribbean Association of Banks Inc.
CARICOM	Caribbean Community
CBs	Correspondent Banks
CBRs	Correspondent Banking Relationships
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CFT	Countering the Financing of Terrorism
CPF	Counter Proliferation Financing
CPMI	Committee on Payments and Market Infrastructures
CRTMG	CFATF Risk, Trends and Methods Group
ECCB	Eastern Caribbean Central Bank
FATF	Financial Action Task Force
FIs	Financial Institutions
FINMA	Swiss Financial Market Supervisory Authority
FSB	Financial Stability Board
GDP	Gross Domestic Product
IMF	International Monetary Fund
KYC	Know Your Customer
ML	Money Laundering
ML/TF	Money Laundering and Terrorist Financing
MVTS	Money Value Transfer Service
RBs	Respondent Banks
RBA	Risk-Based Approach
TF	Terrorist Financing

ABSTRACT

This updating exercise represents an update of the 2018-2019 stocktake on de-risking in CFATF Member jurisdictions, focusing on actions taken by Central Banks and Financial institutions to mitigate its impact. The paper also identifies the negative impact of de-risking on the Region and actions taken in response. The Paper identifies de-risking practices over the period 2019 - 2022.

I. INTRODUCTION

'De-Risking' Defined

1. According to the Financial Action Task Force (FATF), 'de-risking' occurs when financial institutions terminate or limit business relationships with jurisdictions or certain types of customers to avoid, rather than manage, risks in line with the FATF's risk-based approach (RBA)[1]. Similarly, the Association of Supervisors of Banks of the Americas (ASBA) defines 'de-risking' as the process where financial institutions leave or significantly reduce certain business lines to avoid compliance and regulatory risks.[2] Common to both ASBA's and FATF's definitions for 'de-risking' is the avoidance rather than management of risks.

Understanding Correspondent Banking Relationships

2. The 2016 FATF Guidance on Correspondent Banking Services describes correspondent banking as the provision of banking services by one bank, the correspondent bank (the "CB") to another bank, the respondent bank (the "RB"). The Guidance further elaborates that a bank or Money Value Transfer Service (MVTS) provider can provide correspondent banking services through processing and/or executing transactions on behalf of the respondent institution's customers or the account of the MVTS which is used to process and/or execute the customer transactions.[3]

3. The Wolfsberg Group of Banks, which developed the "Wolfsberg Principles for Correspondent Banking" as the recommended best practice for establishing and maintaining correspondent accounts, 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"[4].

4. In the global financial system, large international banks usually operate as correspondents for many other banks worldwide and provide multiple services, such as cash management, international wire transfers, cheque clearing, payable-through accounts and foreign exchange services. It must be noted that correspondent banking does not include one-off transactions but rather, is characterized by its ongoing, repetitive nature. In addition, unless the institution provides payable-through-account services[5], correspondent institutions generally do not maintain direct business relationships with the customers of the respondent institution.

5. Correspondent Banking Relationships (CBRs) are consequently an essential component of the global payment system since they allow Financial Institutions (FIs) in developing countries with small banking sectors to access financial services in jurisdictions without the need for a branch presence or a bank

---

[1] FATF. (October 2016). Guidance Correspondent Banking Services. Retrieved from: https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Correspondent-Banking-Services.pdf

[2] Association of Supervisors of Banks of the Americas (ASBA). "An Overview on De-Risking: Drivers, Effects and Solutions", 2017 Retrieved from: http://www.asbasupervision.com/es/bibl/i-publicaciones-asba/i-2-otros-reportes/1598-an-overview-on-de-risking-drivers-effects-and-solutions/file

[3] The FATF description of correspondent banking is similar to that of the Caribbean Policy Research Institute (an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks).

[4] The Wolfsberg Group, "Wolfsberg Anti-Money Laundering Principles for Correspondent Banking," Wolfsberg Group. 2014. Retrieved from: https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsbergstandards/8.%20Wolfsberg-CorrespondentBanking-Principles-2014.pdf

[5] FATF Interpretive Note to Recommendation 13 on Correspondent Banking-The term payable-through accounts refers to correspondent accounts that are used directly by third parties to transact business on their own behalf.

license[6]. CBRs are also essential for providing a wide array of global financial services, such as cross-border payment services to governments, businesses and individuals that would otherwise be excluded from the global financial system and international trade. Therefore, they are essential for maintaining an efficient and resilient global financial system as well as for encouraging financial inclusion and economic development.

6. For the Caribbean Region, CBRs significantly contribute to the stability of the Region's economic, financial and social ecosystem. Loss of CBRs or the process of 'de-risking', is therefore a substantial issue for the Caribbean Region that is heavily dependent on trade, foreign direct investment and remittances. While Regional trade amounts to one-third of the United States' gross domestic product (GDP), trade is equivalent to almost half the GDP of developing countries of Latin America and the Caribbean and almost 100 percent of the GDP in small Caribbean states.[7] 'De-risking' therefore threatens to strangle the supply lines of economic activity with potentially calamitous consequences for economic growth and social development in the Caribbean. The following section aims to examine the drivers and consequences of this problem in the Caribbean Region.

FATF Framework for Correspondent Banking Services

7. Correspondent institutions, in assessing the risks of their respondent must ensure that the assessment is sufficiently robust to consider all the relevant risk factors. By doing so, the different levels of inherent risks are clearly understood, and appropriate controls are applied to each, ensuring the effective management of these risks.[8] Thus, a risk-based approach (RBA) is necessary. The RBA requires an adjustment of the implementation of measures in proportion to the level of ML/TF risk presented by the specific circumstances. Stronger measures are therefore applied in higher-risk situations, in line with Recommendation 1 of the FATF International Standards on Combatting Money Laundering and the Financing of Terrorism and Proliferation (The FATF Recommendations).

8. Furthermore, the FATF indicates that the requirements of both FATF Recommendations 10 (Customer Due Diligence (CDD)) and 13 (Correspondent Banking) must be met in all cases before cross-border correspondent banking services may be provided to a respondent institution.[9]

9. Under FATF Recommendation 13, cross-border correspondent banking and other similar relationships require these additional measures:

    i. gathering sufficient information about the respondent institution, to fully understand the nature of the respondent's business, and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to an ML/TF investigation or regulatory action.

    ii. concerning payable-through accounts, FIs should be required to satisfy themselves that the respondent bank

        a) has performed CDD obligations on its customers that have direct access to the accounts of the correspondent bank; and

[6] Commonwealth Secretariat "Disconnecting from Global Finance: The Impact of AML/CFT Regulations in Commonwealth Developing Countries", 2016.
[7] Caribbean Policy Research Institute (CAPRI). (February 2016). The Correspondent Banking problem: Impact of De-Banking Practices on Caribbean Economies. Retrieved from: https://capricaribbean.org/sites/default/files/public/documents/report/the_correspondent_banking_problem.pdf . Page 13.
[8] FATF (October 2016). Guidance Correspondent Banking Services. Retrieved from: http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf
[9] Ibid, pg. 9

b) can provide relevant CDD information upon request to the correspondent bank.

10. CDD measures entail (a) identifying the customer and verifying that customer's identity; (b) identifying the Beneficial Owner (BO) and verifying that BO's identity; (c) understanding/obtaining information about the purpose and intended nature of the business relationship and; (d) ensuring that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

11. Two other FATF Recommendations, namely 11 and 24 apply to CBRs. Under FATF Recommendation 11, FIs should maintain, for a minimum of five (5) years, all records on transactions/CDD information/measures taken. These include copies of official identification documents, account files and business correspondence. The records/information must be sufficient to permit the reconstruction of individual transactions to provide, if necessary, evidence for the prosecution of criminal activity. FATF Recommendation 24 states inter alia that there should be adequate, accurate and up-to-date information on the beneficial ownership and control of legal persons and measures to prevent the misuse of legal persons for ML/TF purposes.

II. RATIONALE FOR ANALYSIS OF 'DE-RISKING'

Literature Review of 'De-risking'[10]

Background

12. The Caribbean Region has been experiencing an increase in the de-risking practices of international financial institutions. This trend has had a severe impact on the Region's financial stability, limiting the availability of correspondent banking relationships, and impeding the ability to conduct international transactions. As noted earlier, the loss of CBRs poses a significant threat to the Region's economic development as it affects trade, investment, and remittance flows. Therefore, it is imperative to develop a comprehensive counter de-risking strategy that will address the concerns of international financial institutions while safeguarding the interests of the Caribbean countries. As such, the de-risking practices of some CBs were previously noted by CARICOM[11] and the Caribbean Development Bank as early as 2016 and documented by the Association of Banking Supervisors of the Americas (2016)[12], the Financial Stability Board (2018)[13] and the CFATF[14].

13. At the CFATF's 56th Plenary and Working Group Meetings in May 2023, the Plenary approved the Project to update the 2019 de-risking stocktaking exercise. The CFATF's 2019 report 'De-risking in the Caribbean Region – A CFATF Perspective' is an exploratory analysis of the extent, nature, and ramifications related to de-risking specific to Caribbean-based FIs and Central Banks in the CFATF member jurisdictions. The analysis revealed that the main de-risking effects were increased operational and administrative costs for operations, longer banking processes, difficulty providing services/products to clients and elevated perception of risk. The report made several recommendations to mitigate and

[10] Please refer to the 2019 CFATF De-risking in the Caribbean Region – A CFATF Perspective.

[11] During the 27th Inter-Sessional meeting of the Conference of the Heads of Government of the Caribbean Community (CARICOM) held on February 16th–17th, 2016 in Belize, heads of government appointed a high-level advocacy group, led by the Prime Minister of Antigua and Barbuda, the Honourable Gaston Browne, to represent the interests of the Region in addressing this issue.

[12] ASBA. (March 2016). Impact of Compliance/Regulatory Risk in Financial Activity ("De-risking") in the Americas Association of Supervisors of Banks of the Americas.

[13] FSB action plan to assess and address the decline in correspondent banking: Progress report to G20 Summit of November 2018. Retrieved from: https://www.fsb.org/wp-content/uploads/P161118-3.pdf

[14] De-risking in the Caribbean Region – A CFATF perspective. Retrieved from: https://cfatf-gafic.org/documents/resources/13667-de-risking-in-the-caribbean-region-a-cfatf-perspective/file

counter the impact. This report is a follow-up to that work and seeks to ascertain the experience and response to de-risking in the period following 2019. This project also supports the strategic objectives of the CFATF as set out by the CFATF Chairman's Work Programme for 2022-2023[15].

Methodology of the CFATF Stock-Taking Exercise

Data Sources and Collection

14. As was the case in 2019, the 2023 'de-risking' update entailed gathering information from primary and secondary sources on the subject matter. In that regard, two questionnaires were drafted by the CFATF Secretariat; one aimed at Central Banks/ Monetary Authorities and the other at FIs, to collect responses from the regulatory framework perspective as well as from the operational perspective of FIs. Information was obtained from both primary and secondary sources, with the primary sources being the questionnaire respondents and the secondary sources being official government statistics, publications by International Financial Institutions such as the International Monetary Fund and the World Bank, as well as CPMI, Journal of Law and Financial Stability, the Financial Stability Board and media reports.

15. The draft questionnaires were then circulated to the CFATF Risk, Trends and Methods Group (CRTMG) members for their review. Once the review was concluded, the finalized questionnaires were circulated to the Central Banks/Monetary Authorities and FIs of the CFATF Membership for completion by July 7th, 2023. Responses were received from nineteen[16](19) Central Banks/Monetary Authorities representing all such entities within the CFATF Membership and 147 financial institutions. The questionnaires are available in Annex 1 and Annex 2 of this Report.

Objectives

16. The primary objective of this Report is to update the existing data on de-risking practices to develop a counter de-risking strategy that will mitigate the negative impact of de-risking practices on the Caribbean. Other specific objectives are as follows:

    i. To analyze the impact of de-risking on trade, investment, and remittance flows in the Caribbean since the last survey was undertaken.

    ii. To identify the factors that continue to contribute to de-risking practices in the Caribbean.

    iii. To identify alternative financial mechanisms and correspondent banking relationships that can provide the necessary financial services to the Caribbean region.

III. DISCUSSION OF FINDINGS

De-risking impact: trade, investment, and remittance flows

17. The most immediate impact of de-risking is on the customer base of FIs. Almost all responding FIs indicated that the threat of being de-risked impacted its operations firstly by affecting the onboarding of customers or being the determining factor when terminating business with clients from perceived higher-risk sectors, inclusive of PEPs from higher-risk jurisdictions. Such actions drive financial activity out of the regulated financial system, hamper remittances, prevent low- and middle-income segments of the population from efficiently accessing the financial system, and prevent the unencumbered transfer of humanitarian aid and disaster relief. Further, the consequences of de-risking are recognized by the United States Treasury as a national security risk as that financial activity that occurs outside of regulated channels is a source of risk[17].

[15] Chairman Samuel Bulgin, KC, JP, Attorney General, Cayman Islands

[16] The ECCB represents five (5) jurisdictions.

[17] https://home.treasury.gov/news/press-releases/jy1438

18. Correspondent banks provide depository, payment and other financial services[18] and thus play an important role in facilitating international trade and finance. Without such arrangements, RBs are restricted from access to the global financial system and unable to engage in cross-border transactions which are vital to support international trade and development, remittance flows, and humanitarian aid[19] while the increased cost of compliance was also identified.

Central Banks

19. Correspondent banking de-risking in the Caribbean Region is influenced by several factors. One of the primary drivers is the stringent application of AML/CFT regulations imposed by global financial institutions and regulatory bodies which has resulted in a change in the risk appetite of the correspondent banks. These regulations compel correspondent banks to conduct comprehensive due diligence on their foreign counterparts, which can be resource-intensive and costly. Additionally, concerns about the region's perceived reputation for higher risk due to jurisdictions being placed on international lists either for AML reasons or non-compliance with international tax transparency standards also have an impact. The relatively small market size of many Caribbean nations and limited profitability for correspondent banks was also a determining factor which discouraged them from maintaining these relationships.

20. Almost 95% of the Central Banks/ Monetary Authorities considered 'de-risking' to be a threat to the operational viability of their supervised institutions. Just over 50% of all Central Banks/ Monetary Authorities stated that the trends in 'de-risking' did not change while 32% noted an increase in 'de-risking' practices from 2019 to 2022. From a regulatory perspective, 'de-risking' is still perceived as a serious challenge in the region.

21. When correspondent banks did provide reasons for ending their CBRs, chief among them were, inter alia, low-risk appetites, concerns over profitability and transaction volumes and the regulatory burden. This does not differ significantly from the conclusion reached in the 2019 report that the main de-risking driver is cost and associated profitability.

22. In terms of actions taken to mitigate the effects of 'de-risking', a mix of regional capacity building, improved supervisory roles, strengthening CBR mechanisms and data analysis on 'de-risking' was identified. The responses of Central Banks/Monetary Authorities have converged and tended towards developing stronger AML/CFT legislative and regulatory frameworks that involve collaboration with regional counterparts, enhanced supervision of FIs and developing dialogue with FIs. In 2019 banking supervisors also responded by developing stronger AML/CFT legislative and regulatory frameworks, and regional progress in technical compliance throughout the 4th Round of Mutual Evaluations allowed refinement of the legislative approaches. Finally, regular dialogue with major correspondent banks was also sought.

23. De-risking remains very complex and adopting a multi-pronged approach can offer the greatest opportunities for success. Central Banks/ Monitoring Authorities sought considerable support to alleviate the threat of 'de-risking' in the region by participating in and advocating at international forums/conferences and meeting with correspondent banks and foreign supervisory authorities.

---

[18] Another correspondent banking relationship includes a payable-through account where "the respondent bank allows its customers to engage, either directly or through a subaccount directly access the correspondent account," without the respondent bank facilitating the transactions. See Bank for Int'l Settlements (BIS), Comm. on Payments and Market Infrastructure, "Correspondent Banking," 11 (Jul. 2016), https://www.bis.org/cpmi/publ/d147.pdf.

[19] Cong. Rev. Serv., Overview of Correspondent Banking and "De-Risking" Issues, IF10873 (Apr. 8, 2022), https://crsreports.congress.gov/product/pdf/IF/IF10873/3.

Financial Institutions

24. Responses were received from institutions that identified themselves as an indigenous or local bank (49), internationally owned or foreign affiliated bank (25) or an offshore bank (27). Responses were also received from MSBs (4). Forty-one (41) institutions (29%) reported losing CBRs within the past four years (2019 – 2022). Thirty-seven (37) FIs have had between one (1) and three (3) CBRs, while four (4) experienced termination of between four (4) and six (6) CBRs. Responses were divided 50:50 regarding perceptions that de-risking presents a threat to the institution's operational viability. There was no distinction between a local bank and a foreign-affiliated bank in this regard.

25. Institutions that saw de-risking as a threat to their operational viability were asked to indicate the trend in 'de-risking' pressures over the period 2019-2022. 54%t indicated that there were no changes to the challenges experienced as a result of de-risking over the period 2019 – 2022 when compared to the previous reporting period 2017-2019. 43% indicated that the challenges have increased. In total, 97% of responding FIs indicated that de-risking remains a challenge or that pressures had increased. The threat of de-risking influenced FIs from onboarding new clients or de-risking existing clients from particular sectors or known to have higher-risk clients. Given the de-risking experienced, FIs reported decreases in the volume of CB transactions, restriction of CBRs and increased costs associated with maintaining CBRs. Low-profit margins and the cost of compliance were still the main reasons for the loss of CBRs. Most of the FIs' former correspondent banks are domiciled in North America, followed by Europe. The actions taken in response to losing CBRs included strengthening the institution's AML/CFT compliance program, employing technological solutions to boost their CDD efforts and seeking alternative providers.

Considerations for a Counter De-risking Strategy

26. *Enhanced regulatory compliance:* Jurisdictions should invest in strengthening their regulatory and supervisory frameworks to keep pace with evolving international AML/CFT Standards and thus mitigate against the vulnerabilities to which Correspondent Banks are exposed. This includes ensuring that domestic laws, regulations and supervisory practices are in line with the international Standards and are being rigorously enforced.

27. *Technology Adoption:* The implementation of modern technology solutions such as blockchain and other fintech innovations to enhance the transparency and security of financial transactions should be accelerated. These technologies can help in real-time monitoring, tracking of funds and reducing risks of Respondent Banks within the Caribbean Region. Ultimately, these reduced risks present themselves to Correspondent Banks in the form of reduced ML/TF vulnerabilities. Additionally, there should be investment in training and capacity-building programs for financial institutions, regulatory authorities, and law enforcement agencies to enhance their ability to combat financial crime effectively.

28. *Regional Collaboration and Advocacy:* Encourage regional collaboration among Caribbean nations to share best practices and resources for AML/CFT efforts. Joint initiatives can help in developing a unified front to address de-risking concerns. Continued engagement in efforts to lobby international bodies and correspondent banks to reconsider their de-risking strategies. Highlight the steps taken to improve AML/CFT measures and the importance of financial inclusion.

29. *Strategic consolidation of CBRs:* Consolidation allows for the implementation of shared due diligence and compliance measures. This includes adopting standardised AML/CFT procedures which can reduce the perception of risks. Additionally, consolidation enables the pooling of resources for compliance, risk assessment, and technology investments. This shared effort can improve the overall

ability to meet international regulatory requirements. The countries suffering de-risking are almost exclusively small countries with low volumes of cross-border payments. Global BIS data suggests that while the number of correspondent relationships continues to decline, the number of payments and the volume of those payments continue to grow.[20][21] This means that within the Caribbean Region, there are potential payment corridors wherein a high number and volume of transactions can be sustained thus creating higher profit margins for CBs. A good indicator or predictor of de-risking is profitability. The US Treasury notes that the correlation between lack of potential profit and de-risking appears stronger than the correlation between AML/CFT compliance and de-risking. Consolidating CBRs allows for savings on the cost side of the business equation and gains on the revenue side. Such a strategy may result in CBRs that CBs find a worthwhile business enterprise. Maintaining fewer CBRs that are strategically placed to allow for the concentrated transfer of funds, across borders for trade, remittance, aid, etc. but sustaining sufficiently high transaction volumes may result in CBRs that CBs have a keen interest in maintaining.

30. *Public Awareness:* Educate the public and stakeholders about the importance of AML/CFT compliance and the consequences of de-risking. Building a culture of compliance and financial responsibility can help in reducing ML/TF risks.

IV. CONCLUSION

31. The reasons for de-risking in the Caribbean Region are complex and intertwined. Heightened global regulatory standards, concerns over money laundering, the region's collective performance with the FATF Standards, and the relatively small market of many Caribbean nations all contribute to the issue. Regulatory bodies have imposed strict AML/CFT regulations, forcing Caribbean banks to undergo resource-intensive due diligence measures, ultimately leading to a reduction in correspondent banking relationships. Additionally, the Caribbean's reputation as having higher-risk jurisdictions and perceptions of lax financial oversight have contributed to a decline in trust among correspondent banks. As a result, financial institutions in the Caribbean are struggling with the negative effects of de-risking, including financial exclusion, and economic challenges.

32. Accordingly, to address the challenges posed by de-risking, it is crucial for Caribbean countries to prioritise regulatory compliance and transparency, as well as regional cooperation. These efforts should be accompanied by proactive measures to improve data systems and the usage of technology, enhance engagement with correspondent banks, and raise public awareness about the significance of AML/CFT financing measures. By addressing these underlying issues and implementing a comprehensive approach, the Caribbean Region can work towards enhancing its position in the global financial landscape, promoting financial stability, and ensuring fair access to international financial services for its citizens and businesses.

[20] New correspondent banking data - the decline continues* (bis.org)

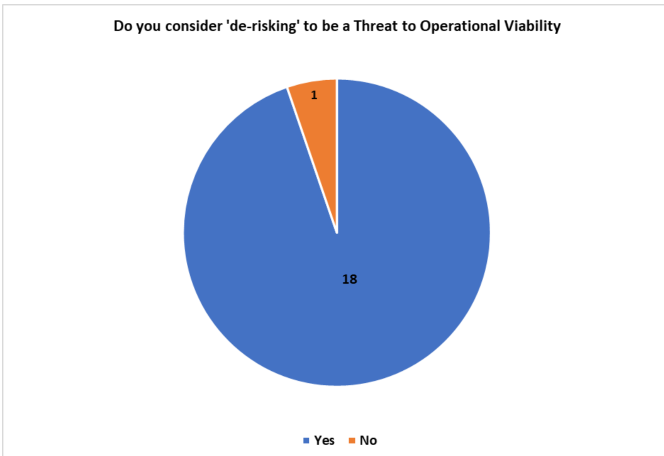
ANNEX 1

Data Analysis and Responses

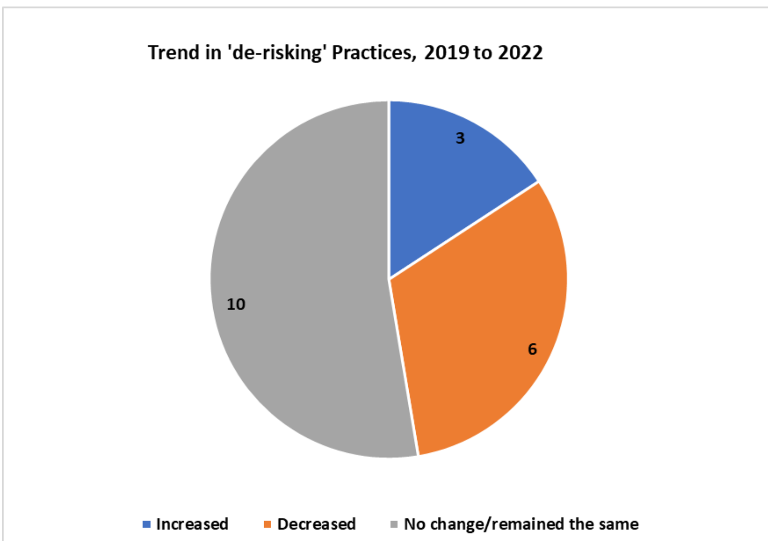
CFATF 'De-risking' Survey Data Analysis - Central Banks

Question 5. Nineteen countries participated in the survey for central banks and monetary authorities. Except for one central bank representing five (5) jurisdictions in the survey, all other responses were elicited from separate national entities.

Question 6. Almost all of the central banks and monetary authorities considered 'de-risking' to be a threat to the operational viability of their supervised institutions.



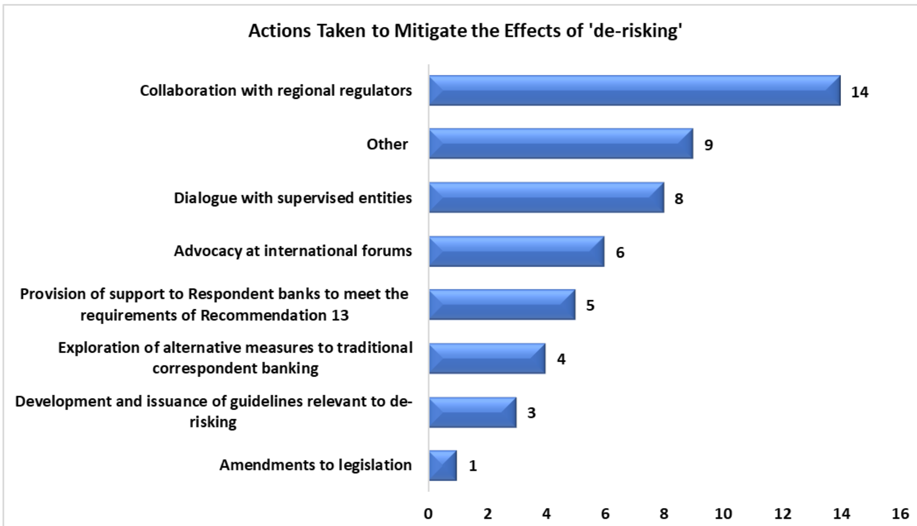
Question 7. A little more than 50 percent of the respondents stated that the trends in 'de-risking' did not change or remained the same. Increases were noted by six (6) participants while three found that there was a decrease in 'de-risking' practices over the stated period.



Question 8. The table below indicates the main reasons provided by correspondent banks for ending CBRs in 11 jurisdictions.

Country	**What were the main reasons provided by Correspondent banks for de-risking of CBRs in your jurisdiction?**
Aruba	• Lower risk appetite of the correspondent banks. • Imposition of international sanctions. • Concerns or insufficient information about CDD procedures. • Avoidance of regulatory sanctions against correspondent banks.
Belize	• Change in risk appetite. • Profitability margins. • Unwillingness of correspondent banks to bear the cost of account monitoring.
Curacao	• Risk appetite of the bank. • Low volumes of transactions. • Reputation of the Region.
Dominica	• Risk of onboarding is too high. • The pressures of having to comply with stricter regulatory controls.
Grenada	• Agreed timelines for addressing regulatory deficiencies by the respondent bank were not within the correspondent bank's risk appetite.
Guyana	• Inability/cost for foreign financial institutions to undertake CDD on the financial institution's customers. • Structural changes to foreign financial institutions (including merger/acquisition) and /or reorganisation of business portfolio. Imposition of enforcement actions by the domestic authority of the relevant foreign financial institutions. • Changes to legal, regulatory or supervisory requirements in foreign financial institutions' jurisdiction that have implications for maintaining CBRs. • Overall risk appetite of foreign financial institutions. • Lack of profitability of certain foreign CBR services/products.
Montserrat	• There was limited impact of de-risking during this period. However, the correspondent bank would have reduced its risk appetite for doing transactions for customers within certain sectors.
Suriname	• The country is seen as a high-risk country because it is in the Caribbean.
The Bahamas	• Moving away from a particular jurisdiction/Region. • Profitability/lack of viable returns.
Trinidad and Tobago	• De-risking in some banks was based on internal policies to rationalize the management of correspondent accounts held on the CB's books. This was because of the perception of the Region as being 'high risk' due to jurisdictions being placed on international 'black' lists either for AML reasons or non-compliance with international tax transparency standards (the 'profit vs risk' equation).
Venezuela	• Challenges with accessing correspondent banking services due to international "unilateral coercive measures".

Question 9. The majority of respondents (14) collaborated with regional regulators to mitigate the effects of 'de-risking' while dialogue with supervised entities was another means central bank authorities utilized to the impact. In the 'other' category, some of the actions included risk-based examinations of licensed financial institutions (LFIs) to ensure compliance with national AML/CFT/CPF legislation, continued focused ongoing supervision, improved data and statistics on CBR de-risking situation, regular dialogue with major correspondent banks.



Question 10. Respondents were asked to provide details on the specific actions taken to address the effects of 'de-risking'. Please see the table below.

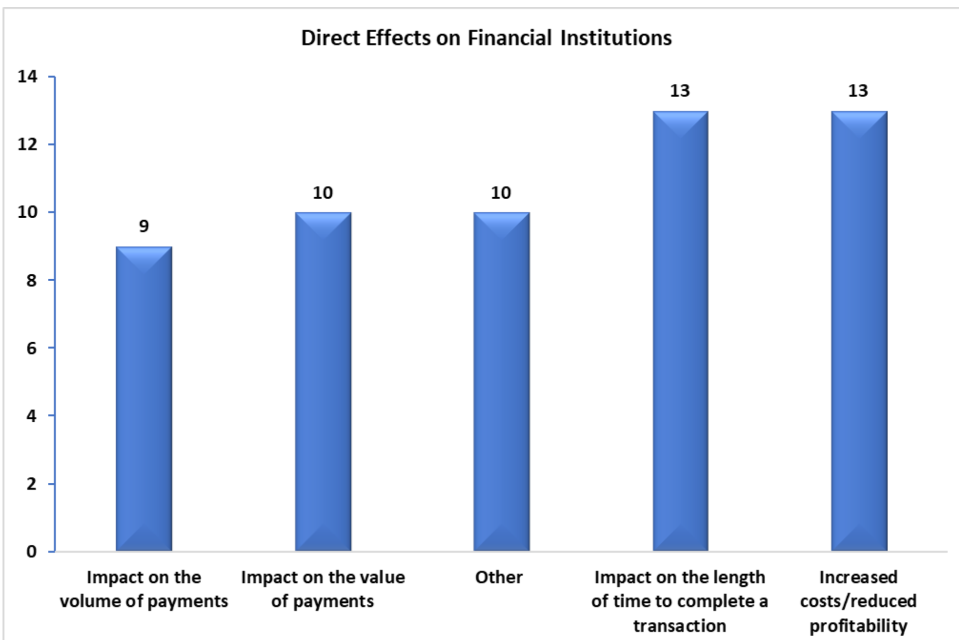
Country	**Please provide further details with respect to the specific actions taken to address the effects of 'de-risking' at Question 9.**
Antigua & Barbuda; Grenada; Saint Kitts & Nevis; Saint Lucia; Saint Vincent and the Grenadines.	• The Eastern Caribbean Central Bank (ECCB) participated in dialogue with the Caribbean Group of Banking Supervisors (CGBS) on the issue of correspondent banking relationships in the Caribbean. • As part of the ECCB's action plan, an assessment will be undertaken to ascertain the sustainability of correspondent banking relationships and the strength of correspondent banks. The assessment is to guide the ECCB policy recommendations to assist LFIs in retaining and growing correspondent banking relationships.
Aruba	• The measures taken are preventative since the country has not been impacted much by 'de-risking'. From 2019 to 2022, the Central Bank of Aruba (CBA) conducted two (2) questionnaires on the topic of CBRs and de-risking to gather

	specific information on the risks involved and banks' approach on the matter. • The CBA held thematic meetings with the managements of the commercial banks together with their Money Laundering Compliance Officers to discuss their CBRs, de-risking, and international trends and developments in this area. • The CBA took immediate actions due to the high vulnerability of one commercial bank, which also had one (1) correspondent bank only. The CBA requested that the bank assess its scope of vulnerability, prepare an action plan, and report monthly to the CBA on the progress made on the search for new CBRs.
Belize	• Advocacy at international and national forums. • Collaboration with regional regulators. • The Governor of Central Bank of Belize (CBB) delivered presentations locally and internationally on correspondent banking. • Discussions are held with correspondent banks when respondents are seeking to establish a relationship. • Provision of support to Respondent banks to meet the requirements of Recommendation 13. • CBB participates as an observer when a correspondent bank reviews a respondent bank. • CBB's AML/CFT compliance staff has been trained on the topic of de-risking and its implications for financial institutions correspondent banking relationship. • CBB has implemented a sanctions program and has amended sector-specific legislation to allow for sanctions to be published and ensure robust AML/CFT measures are in place to protect CBRs and Belize's reputation.
Bermuda	• By continued focused ongoing supervision. • Indirectly, through participating in national efforts to secure a favourable MER review.
Cayman Islands	The Cayman Islands Monetary Authority: • Has regular meetings with supervised entities and Cayman Islands Bankers' Association (CIBA)where any changes and issues with correspondent relationships are discussed. • Holds regular dialogue with other regional regulators and key correspondent banks in which correspondent banking relationships are addressed.

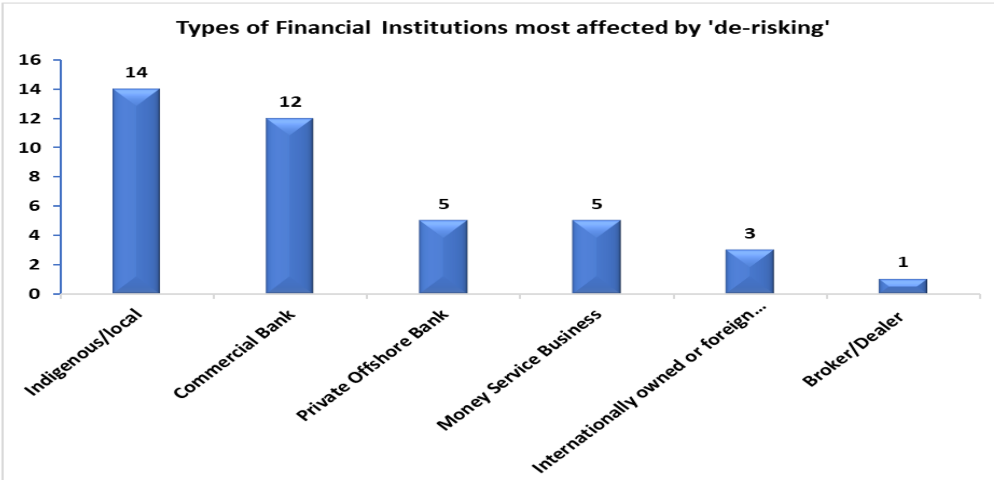
Curacao	• Advocacy visits were done between 2015 and 2017 and meetings with regulatory and supervisory authorities in the U.S. • Beginning in 2021, CBR de-risking was included in the standing agenda for regular meetings with the banking sector; data collection and financial architecture analysis about CBR de-risking in the jurisdiction. • In 2023, a questionnaire and analysis on how banks manage their CBR relationships and mitigate CBR-related risks was done. • Enhanced transparency of regulations and guidelines by improved online generic access to our Rule Books.
Dominica	• Adhere to specific guidelines as disseminated by the Financial Services Unit.
Guyana	• As part of CGBS, Guyana has been working with the regional TWG to address the issues relating to de-risking. • Several amendments to the AML/CFT/PF legislation have been made over the years to further strengthen the AML/CFT/PF regulatory and supervisory framework. • FATF Recommendations were incorporated into the amendments to the AML/CFT legislation in 2015 and 2016. • The Governor of the Central Bank visited and met with correspondent banks in Canada and participated in several forums on de-risking.
Jamaica	• Dialogue with supervised entities to maintain awareness.
Montserrat	• The Caribbean Association of Bank (CAB) has attended several sessions in the US to lobby for the indigenous Banks within the Region. • CAB set up meetings with potential correspondent banks with indigenous banks to create new relationships.
Suriname	• A new/amended Act on preventing and combating ML and TF came into force November 2022. Accordingly, a new/amended Directive on AML/CFT will be issued shortly.
The Bahamas	• The Central Bank participates regionally in the CGBS which has also focused attention on the matter of de-risking within the Region. • The Central Bank has participated in international forums/conferences on de-risking. • The Central Bank continues to encourage public/private dialogue; and it issues a newsletter at least annually to Correspondent Banks to provide updates on AML/CFT and other related initiatives within the bank and the jurisdiction.

Trinidad and Tobago	• In its 2018 AML/CFT Guideline, the Central Bank emphasized its expectations of a risk-based approach for managing customer relationships and that the wholesale de-risking of customers or categories of customers is not in keeping with a risk-based approach. • The Guideline also included Guidance for banks when providing banking services to money remitters.
Venezuela	• The Central Bank of Venezuela has taken various steps to establish new correspondent relationships with other financial institutions.

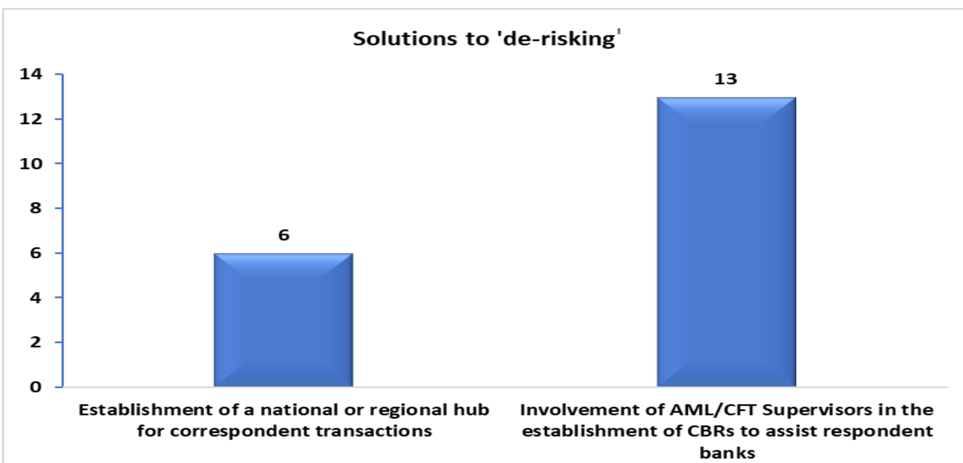
Question 11. The impact on the length of time taken to conduct transactions and increased costs/reduced profitability were noted as the most significant effects of 'de-risking' on supervised institutions. Other effects stated by central bank authorities included reputational damage as the institutions may be perceived as high risk for ML/TF/PF, decrease in investment operations of international, requests from correspondent banks for domestic banks to apply enhanced due diligence for certain customers and transactions and restriction on international banking services.



Question 12. Based on the responses, 13 central bank authorities reported that between two and four of their licensed/ supervised institutions were affected by ‘de-risking’. Indigenous/local institutions (14) and commercial banks (12) were heavily impacted. These were followed by private offshore banks and money service businesses.



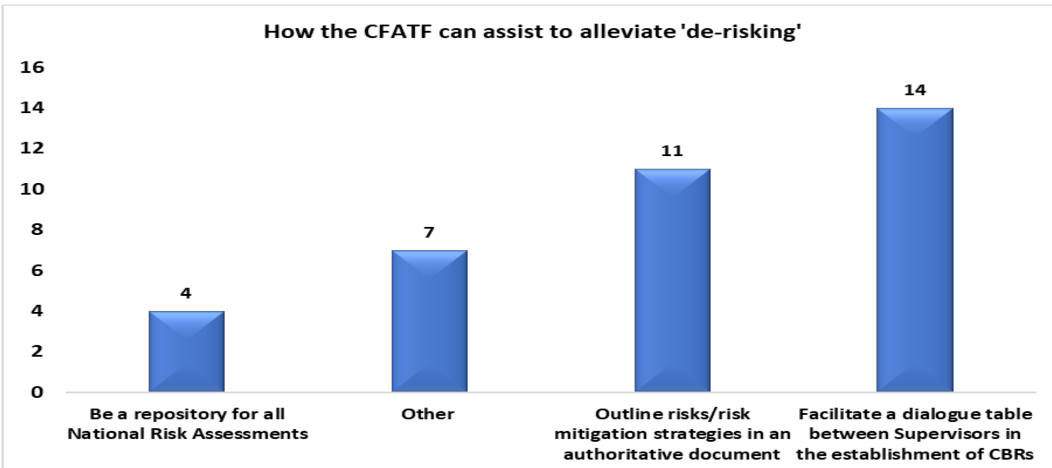
Question 13. AML/CFT supervisor involvement in establishing CBRs was chosen most frequently as the solution to the problem of ‘de-risking’.



Question 14.

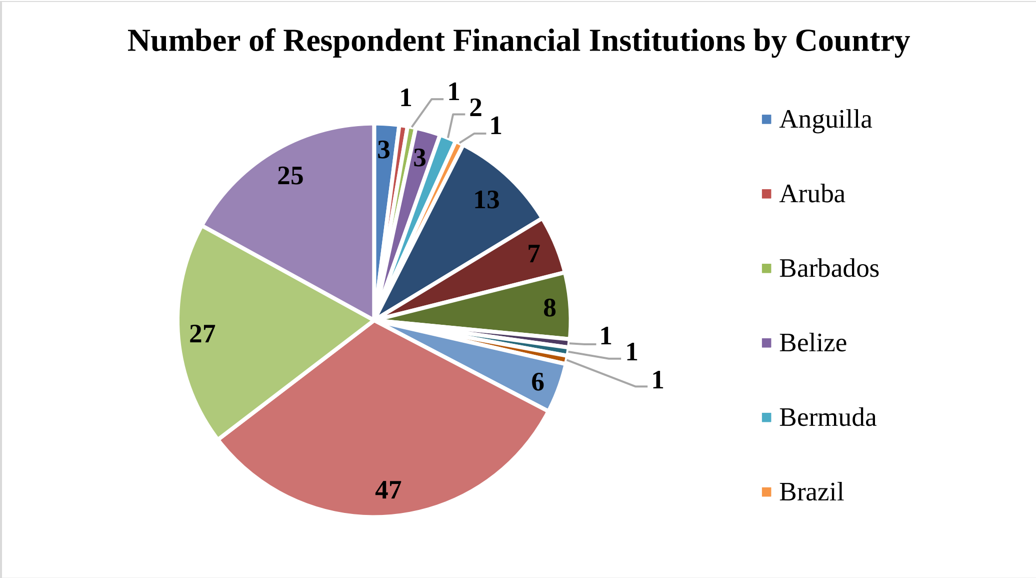
Most of the respondents (14) recommended that the CFATF facilitate dialogue sessions among supervisors to establish CBRs to lessen the threat of 'de-risking'. The use of an authoritative document to outline risks/risk mitigation strategies was also seen as a means by which the CFATF can also achieve the same.

The 'other' reasons included lobbying US authorities to work with US Correspondents to appropriately apply the RBA, providing information on improvements made in Caribbean Countries AML/CFT/CPF regimes after mutual evaluations and advocacy at FATF and other similar forums for better assessment for compliance with international standards and for ensuring that international tax standards are implemented consistently.

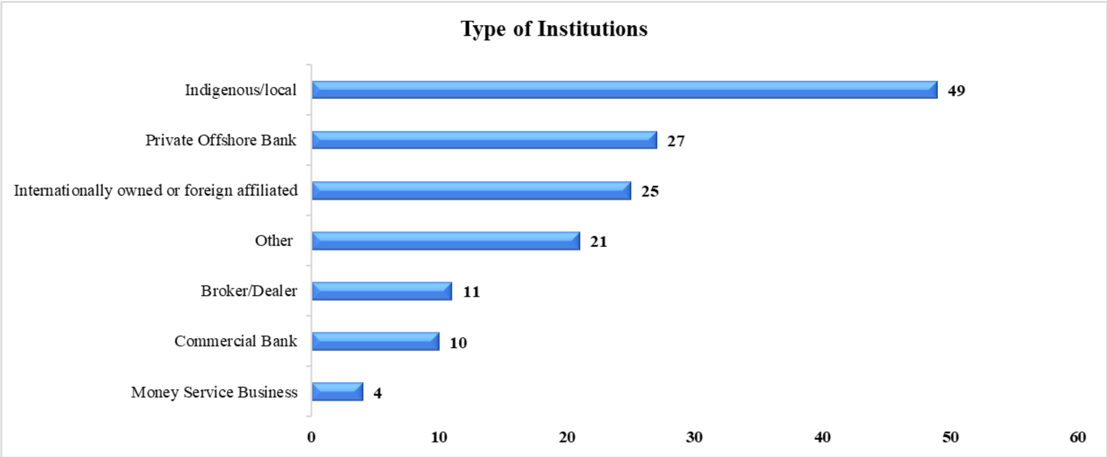


CFATF 'DE-RISKING' SURVEY DATA ANALYSIS – FINANCIAL INSTITUTIONS

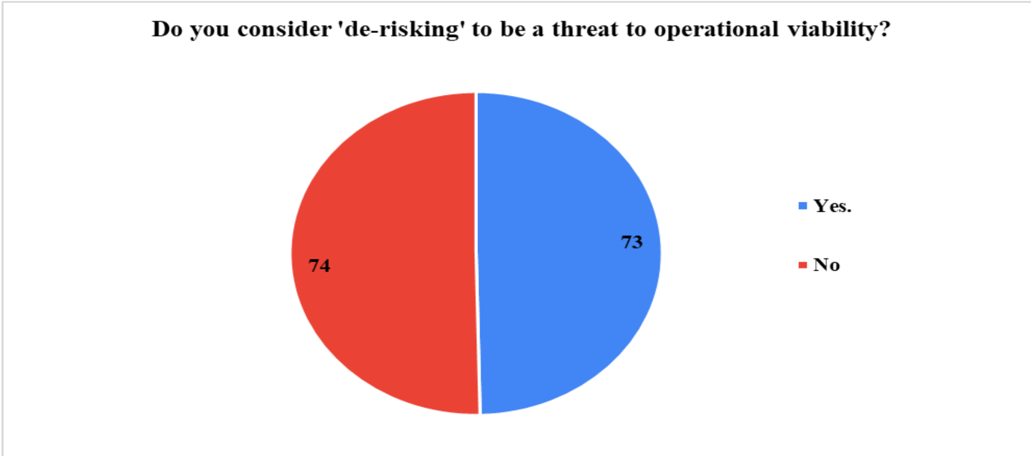
Question 2. There were 147 responses from 16 CFATF jurisdictions. Most of the responses came from The Bahamas (47), Trinidad and Tobago (27), Venezuela (25) and the Virgin Islands (13). Jamaica contributed right (8) responses while Dominica and St. Vincent and the Grenadines had seven (7) and six (6) respectively.



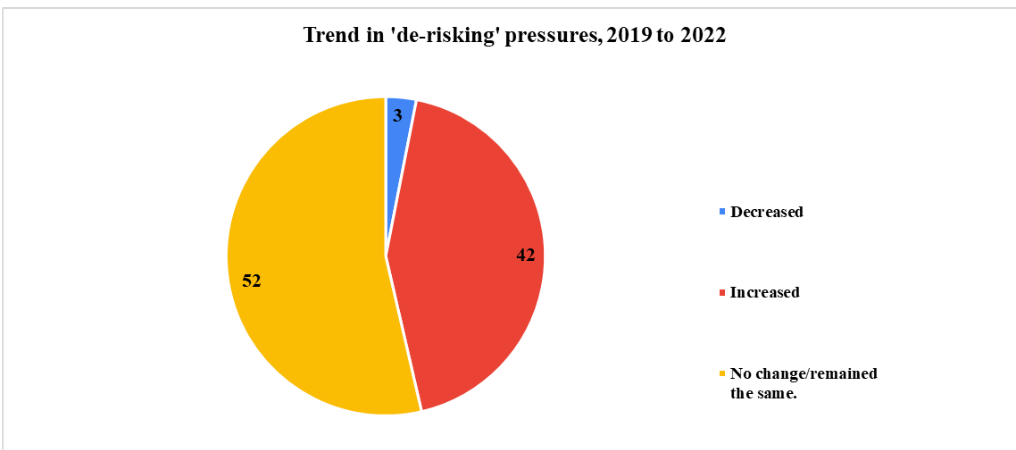
Question 3. Indigenous/local financial institutions accounted for one-third of the total number of respondents, followed by private offshore banks. There were 25 internationally owned/foreign owned and 24 commercial banks participating in the survey. Further, there were 11 brokers/dealers and four (4) money service businesses.



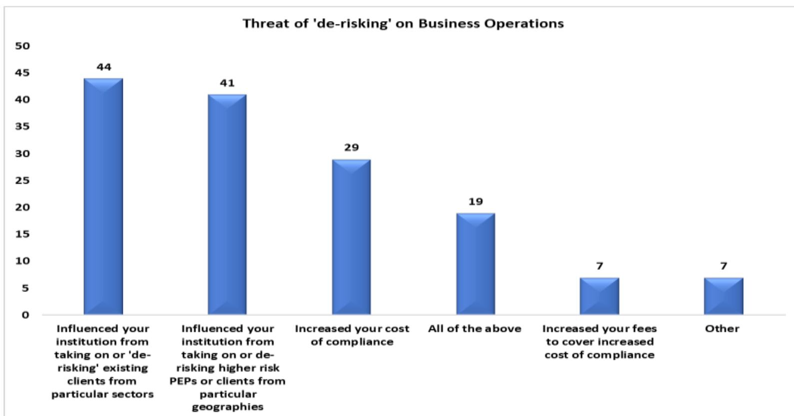
Question 4. Data analysis indicates that almost equal numbers of institutions perceived 'de-risking' as a threat as those that do not believe so.



Question 5. Of the 97 institutions to this question, 52 noted that 'de-risking' challenges did not change or remained the same. Forty-two respondents stated that 'de-risking' pressures increased. Only three (3) respondents indicated that there was a decrease in 'de-risking' pressures.

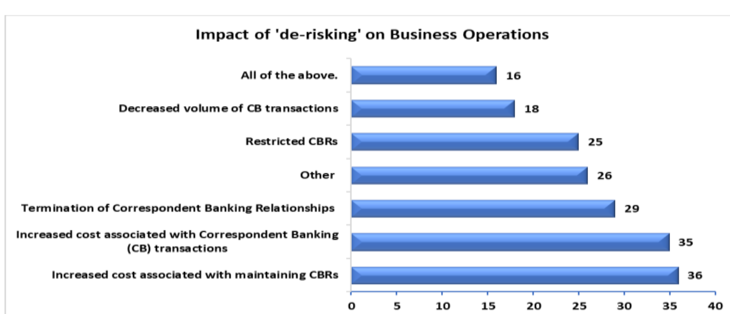


Question 6. Responses were received from 96 (65%) out of the 147 entities to this question. Almost all offered at least two (2) ways the threat of 'de-risking' impacted on their business operations, the most prevalent were affecting on on-take or terminating business with clients from perceived higher risk sectors (44) and a similar approach to PEPs from higher risk jurisdictions (41). Increased cost of compliance was also reported by institutions as a threat to operations (29) while 19 entities were adversely affected by all the means given. Among the impacts given in the 'other' category were termination of CBRs, increased cost associated with CB transactions, counterparties (not correspondent banks) ceasing business with the jurisdiction, closure of respondent bank accounts by the correspondent bank and enhanced due diligence requirements.

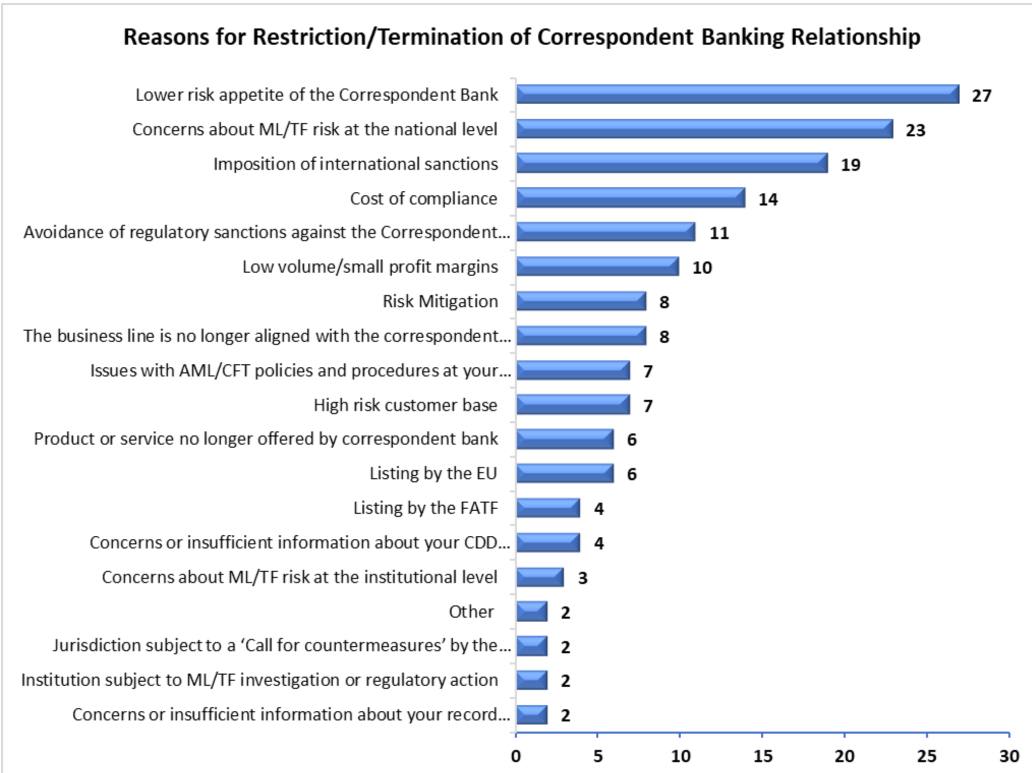


Question 7. In the survey, out of the 112 institutions that responded, 35 stated that it costs more to maintain CBR relationships while 36 noted that the cost of CBR transactions also increased. A considerable number of entities also reported that their correspondent banking relationships were terminated (29) or restricted (25). Other challenges were decreased volumes of CB transactions (18), whereas other institutions' operations were impacted in all the various ways listed in the survey.

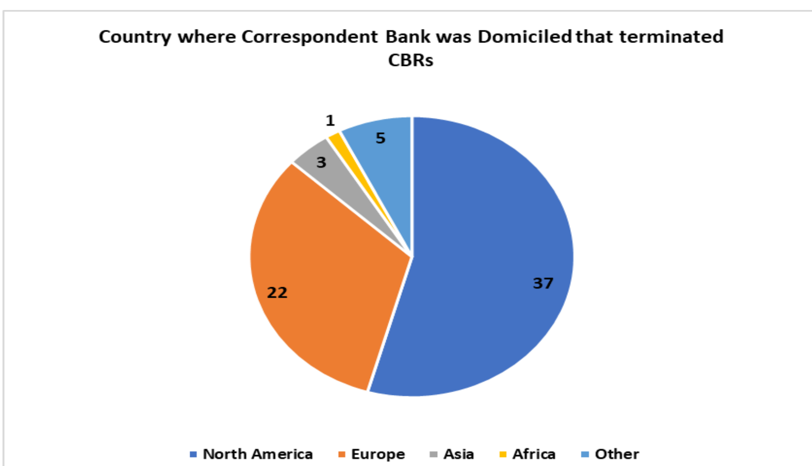
Other ways institutions have been affected include the need for greater allocation of resources for compliance, increased investment in AML Software, prohibition of certain sectors, restrictions of transaction activity and types of services offered, closure of brokerage accounts, operating for extended periods without correspondent banking services, increased requests for information by CBs due to increased OFAC regulations and enhanced scrutiny from correspondent banks.



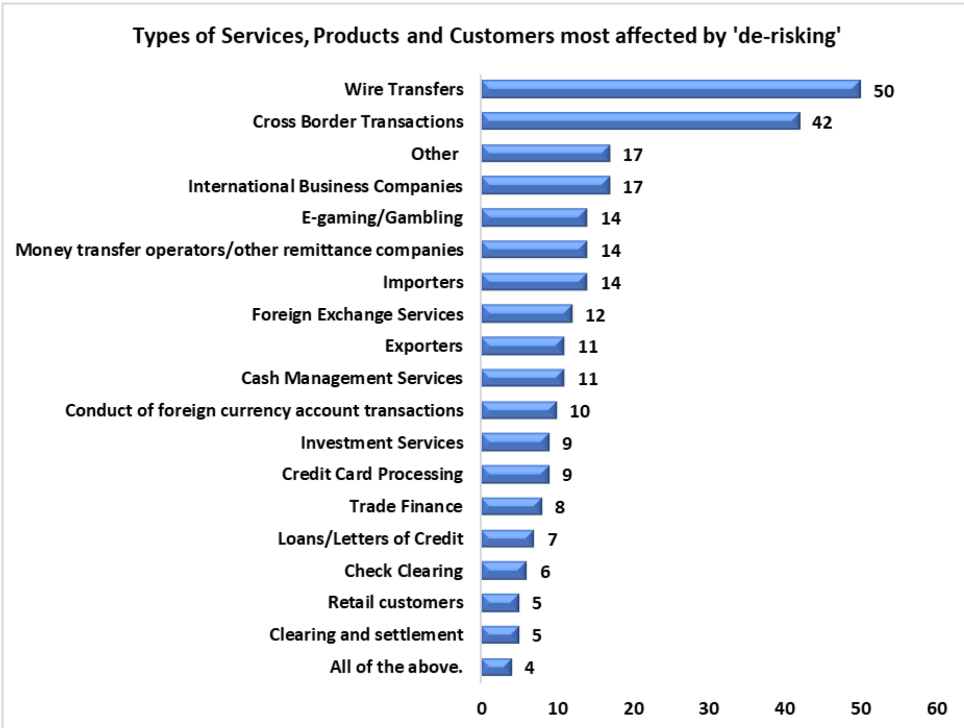
Question 8. Fifty-four (54) institutions (36 percent) reported reasons for the curtailing of their CBRs, the most significant were the low-risk appetite of the correspondent bank and concerns about the country's ML/TF risks. Imposition of international sanctions, compliance costs and avoidance of regulatory sanctions against the correspondent bank were also behind 'de-risking' practices taken by correspondent banks.



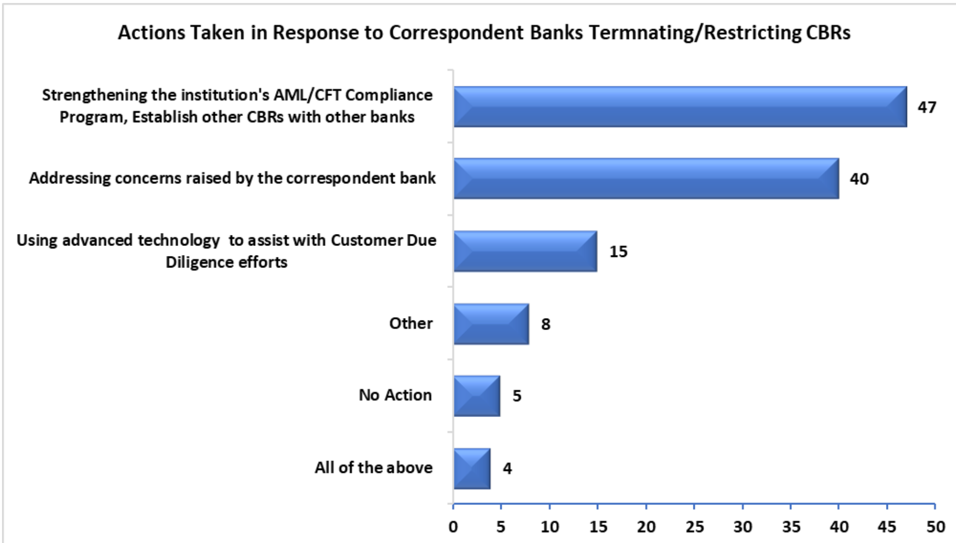
Question 9. Out of the 52 respondents, most (37) reported that their former correspondent bank was domiciled in North America, followed by Europe (22). There were 16 institutions that experienced termination of CBRs by two (2) correspondent banks.



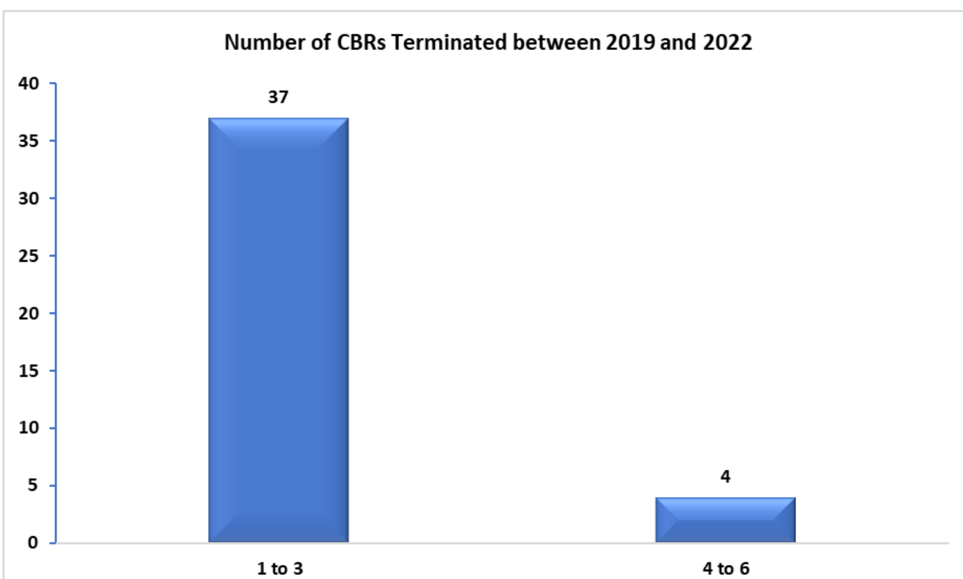
Question 10. In total, 95 institutions reported negative effects of 'de-risking'. Almost 53 percent of these (50) stated that wire transfer services were the hardest hit service as well as cross border transactions. Several other important services and products were impacted, such as International Business Companies, gambling/e-gambling, remittance companies, importers and foreign exchange services. Among the 'other' category, bank transfers were found to be the service most significantly impacted by 'de-risking'.



Question 11. There were 81 responses from financial institutions, with 47 stating that they sought to strengthen the institution's AML/CFT compliance program. Forty respondents addressed the concerns raised by the correspondent bank and another 15 employed the advanced technology to boost their CDD efforts. Other actions that have been taken to deal with 'de-risking' were strengthening and maintaining a good relationship with the CBRs and removing restricted signatories and seeking alternative providers.



Question 12. Out of the 41 institutions that reported losing CBRs in the past three years, 37 have had between one and three CBRs terminated, while four (4) experienced termination from between four and six CBRs.



ANNEX 2

CFATF 'DE-RISKING' SURVEY [CENTRAL BANKS/ MONETARY AUTHORITIES]

The Caribbean Financial Action Task Force (CFATF), is conducting an updated stocktaking exercise to assess the nature, extent, drivers, and impact of 'de-risking' on CFATF Members and to ascertain how member countries have been able to address the factors which led to 'de-risking' * The data collected will be used to publish an updated report on 'de-risking'* in the Caribbean Region.

The CFATF requests your participation in this 5 to10 minutes survey with a view towards publishing an updated report on the 'de-risking' experiences and challenges faced by the members of the CFATF in order to successfully understand the issue.

The procedure involves filling an online survey that will take approximately 5-10 minutes to complete.

Please note that the data collected during this exercise will be kept strictly confidential and used solely for the purpose of this survey. All identifying information will not be used in the publication and distribution of the report.

If you require further clarification, please do not hesitate to contact the Secretariat at the following email addresses:

cfatf@cfatf.org

* In this questionnaire, 'de-risking' occurs when financial institutions terminate or limit business relationships with jurisdictions or certain types of customers in order to avoid, rather than manage, risks in line with the FATF's risk-based approach (RBA). **Source:** FATF. (October 2016). Guidance Correspondent Banking Services. Retrieved from: https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Correspondent-Banking-Services.pdf

* Indicates required question

Email *

1. Contact Person: *

2. Position/Title *

3. Telephone Number *

4. Email address: *

5. Country *

Mark only one oval.

- Anguilla
- Antigua & Barbuda Aruba
- Barbados Belize Bermuda
- Cayman Islands Curacao Dominica Grenada
- Guyana
- Haiti
- Jamaica Montserrat
- Saint Kitts & Nevis Saint Lucia
- Saint Vincent and The Grenadines Sint Maarten
- Suriname
- The Bahamas
- Trinidad and Tobago
- Turks and Caicos Islands Venezuela
- Virgin Islands

6. Does your jurisdiction consider 'de-risking' a threat to operational viability of licenses/supervised institutions? *

Mark only one oval.

- Yes
- No

7. If yes, what has been the trend in ‘de-risking’ practices over the period 2019-2022? *

Mark only one oval.

- Increased
- Deceased
- No change/remained the same

8. What were the main reasons provided by Correspondent banks for ‘de-risking’ of CBRs in your jurisdiction?

9. What specific actions have been taken to mitigate the effects of 'de-risking’ (if any)? *

Check all that apply.

- [ ] Advocacy at international forums
- [ ] Dialogue with supervised entities
- [ ] Development and issuance of guidelines relevant to de-risking
- [ ] Collaboration with regional regulators
- [ ] Amendments to legislation (please specify)
- [ ] Exploration of alternative measures to traditional correspondent banking Provision
- [ ] of support to Respondent banks to meet the requirements of Recommendation 13 (please specify)
- [ ] Other:

10. Please provide further details with respect to the specific actions taken to address the effects of 'de-risking' at question 9 above.

11. What, if any, are / were the direct effects to financial institutions in your jurisdiction as a result of ‘de-risking’? Select all that may apply. *

Check all that apply.

- [ ] Impact on the volume of payments Impact
- [ ] on the value of payments
- [ ] Impact on the length of time to complete a transaction Increased
- [ ] costs/reduced profitability
- [ ] Other:

12. What types of financial institutions have been most affected by ‘de-risking’ for the period 2019-2022?

Check all that apply.

- [ ] Indigenous/local
- [ ] Internationally owned or foreign affiliated Commercial Bank
- [ ] Broker/Dealer
- [ ] Money Service Business
- [ ] Private Offshore Bank

13. Which of the following are useful solutions to ‘de-risking’?

Check all that apply.

- [ ] Establishment of a national or regional hub for correspondent transactions whereby demands for Correspondent Banking transactions from indigenous FIs are channeled through one entity acting as a hub.
- [ ] Involvement of AML/CFT Supervisors in the establishment of CBRs to assist respondent banks by providing relevant information on, e.g. profiles/risks/policies/procedures of FIs for correspondent banks to access?

14. How can the CFATF assist with efforts to alleviate the threat of 'de- risking' in the region? (Select all that apply)

Check all that apply.

☐ Outline risks/risk mitigation strategies by the creation of an authoritative document relating to Members' risk and their implementation of FATF Recommendations regarding CDD and record-keeping measures (including beneficial ownership information and ongoing monitoring) AML/CFT controls, targeted financial sanctions relating to TF.

☐ To facilitate a dialogue session among Supervisors in the establishment of Correspondent Banking relationships.

☐ Be a repository for all National Risk Assessments (NRAs).

☐ Other: ______________________

CFATF 'DE-RISKING' SURVEY [FINANCIAL INSTITUTIONS]

The Caribbean Financial Action Task Force (CFATF), through the work of the CFATF Risk, Trends and Methods Group (CRTMG) received approval from the CFATF 56th Plenary in May 2023 to conduct a stocktaking exercise to assess the nature, extent, drivers, and impact of 'de-risking' on CFATF Members and to ascertain how member countries, through the affected financial institutions have been able to address the factors which led to the action.

In this questionnaire, 'de-risking' is defined as the unilateral closure of a financial institution's correspondent bank account by the correspondent on the presumed basis of a change in the risk appetite and/or risk assessment of the financial institution by the correspondent.

Your participation in this information gathering exercise will be compiled with a view towards publishing an updated report on the 'de-risking' experiences and challenges faced by the members of the CFATF in order to successfully understand the issue.

The procedure involves filling an online survey that will take approximately 5-10 minutes to complete. The information cannot be traced back to individual financial institutions, as we are not collecting any information that would lead to any one financial institution.

If you require any clarification, please do not hesitate to contact the Secretariat at the following email addresses:

cfatf@cfatf.org

* Indicates required question

Unique Identifier: *

1. Position/Title *

2.To which classification does your institution belong? Please check all that apply. *

Check all that apply.

- [ ] Indigenous/local
- [ ] Internationally owned or foreign affiliated Commercial Bank
- [ ] Broker/Dealer
- [ ] Money Service Business
- [ ] Private Offshore Bank

☐ Other: ____________________

3. Do you consider 'de-risking' a threat to the operational viability of your business? *

Mark only one oval.

◯ Yes. Go to question 4.

◯ No. Go to question 5.

4. If you answered yes to the above question, what has been the trend in 'de-risking' pressures over the period 2019-2022?

Mark only one oval.

◯ Increased

◯ Decreased

◯ No change/remained the same.

5. If you answered no at question 3, and you have not been de-risked, has the

* **threat** of de-risking and/or enhanced scrutiny from a correspondent bank impacted your operations? Select all that apply.

Check all that apply.

☐ Influenced your institution from taking on or 'de-risking' existing clients from particular sectors (e.g. gaming, digital assets, other higher-risk activities).

☐ Influenced your institution from taking on or de-risking higher risk PEPs or clients from particular geographies?

☐ Increased your cost of compliance?

☐ Increased your fees to cover increased cost of compliance? All of the

☐ above.

☐ Other: ____________________

6. In what manner has your operations been impacted? Select all that apply. *

Check all that apply.

- [ ] Termination of Correspondent Banking Relationships ('CBRs')
- [ ] Restricted CBRs
- [ ] Increased cost associated with Correspondent Banking (CB) transactions Increased cost associated with maintaining CBRs
- [ ] Decreased volume of CB transactions All of the above.
- [ ] Other: ______________________

7. If yes to question 3 above, what reasons were provided by the correspondent bank for the termination/restriction? (if any)? Please check all that apply. *

Check all that apply.

- [ ] Issues with AML/CFT policies and procedures at your financial institution Concerns about
- [ ] ML/TF risk at the national level
- [ ] Concerns about ML/TF risk at the institutional level
- [ ] Imposition of international sanctions
- [ ] Institution subject to ML/TF investigation or regulatory action Concerns or insufficient information
- [ ] about your CDD procedures
- [ ] Concerns or insufficient information about your record keeping measures High risk customer base
- [ ] Low volume/small profit margins
- [ ] Cost of compliance (i.e. with the local laws and regulations of the correspondent bank and staff Costs)
- [ ] Product or service no longer offered by correspondent bank Listing by the FATF
- [ ] Listing by the EU
- [ ] Jurisdiction subject to a ‘Call for countermeasures’ by the FATF Risk mitigation, based on actions of other financial institutions Avoidance of regulatory sanctions against the Correspondent Bank Lower risk appetite of the Correspondent Bank
- [ ] The business line (i.e. the provision of correspondent banking services) is no longer aligned with the correspondent bank's business strategy
- [ ] No reason given
- [ ] Other: ______________________

8. In instances where correspondent banking relationships have been terminated, where were these institutions (i.e. The Correspondent Bank(s)) domiciled? *

Check all that apply.

- [ ] North America
- [ ] Europe
- [ ] Asia
- [ ] Africa
- [ ] Not Applicable
- [ ] Other: ____________________

9. What types of products/services/customers have been most affected by 'de-risking'? Please check all that apply. *

Check all that apply.

- [ ] Cross Border Transactions
- [ ] Wire Transfers
- [ ] Credit Card Processing Cash Management Services Check Clearing Loans/Letters of Credit
- [ ] Conduct of foreign currency current account transactions
- [ ] Foreign Exchange Services
- [ ] Clearing and settlement
- [ ] Trade Finance Investment
- [ ] Services Mobile banking
- [ ] Importers

Exporters

- [ ] NPOs
- [ ] Money transfer operators/other remittance companies Retail customers

International Business Companies E-gaming/Gambling

- [ ] Not applicable
- [ ] All of the above.
- [ ] Other: ____________________

10. What specific actions have been taken in response to the reasons provided by * correspondent banks for terminating/restricting CBRs (if any)? Please check all that apply.

Check all that apply.

- ☐ Strengthening the institution's AML/CFT Compliance Program
- ☐ Addressing concerns raised by the correspondent bank.
- ☐ Using advanced technology (i.e. FinTech) to assist with Customer Due Diligence efforts (e.g. KYC Utilities)
- ☐ No action
- ☐ Not applicable
- ☐ All of the above.
- ☐ Other: ______________________

11. How many CBRs have been terminated in the past (3) years?

Mark only one oval.

- ◯ 1-3
- ◯ 4-6
- ◯ 7-10
- ◯ 10+
- ◯ None