



Data as a constant in an evolving International AML landscape : De-risking and the snowball effect

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Sri Lanka



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Agenda for the next 30 mins



Introduction to Accuity



De-risking : What is it? Is it really happening?
Adverse effects of de-risking




What leads to de-risking



Recommendations



Best practices



How can we help



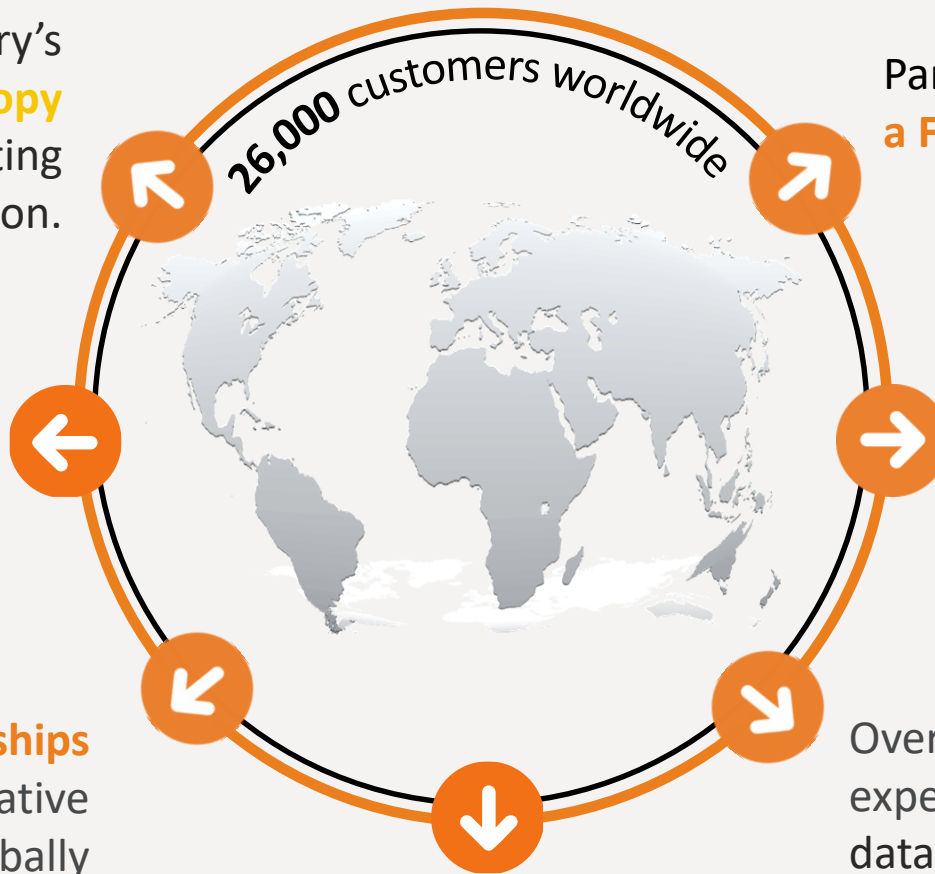
Questions

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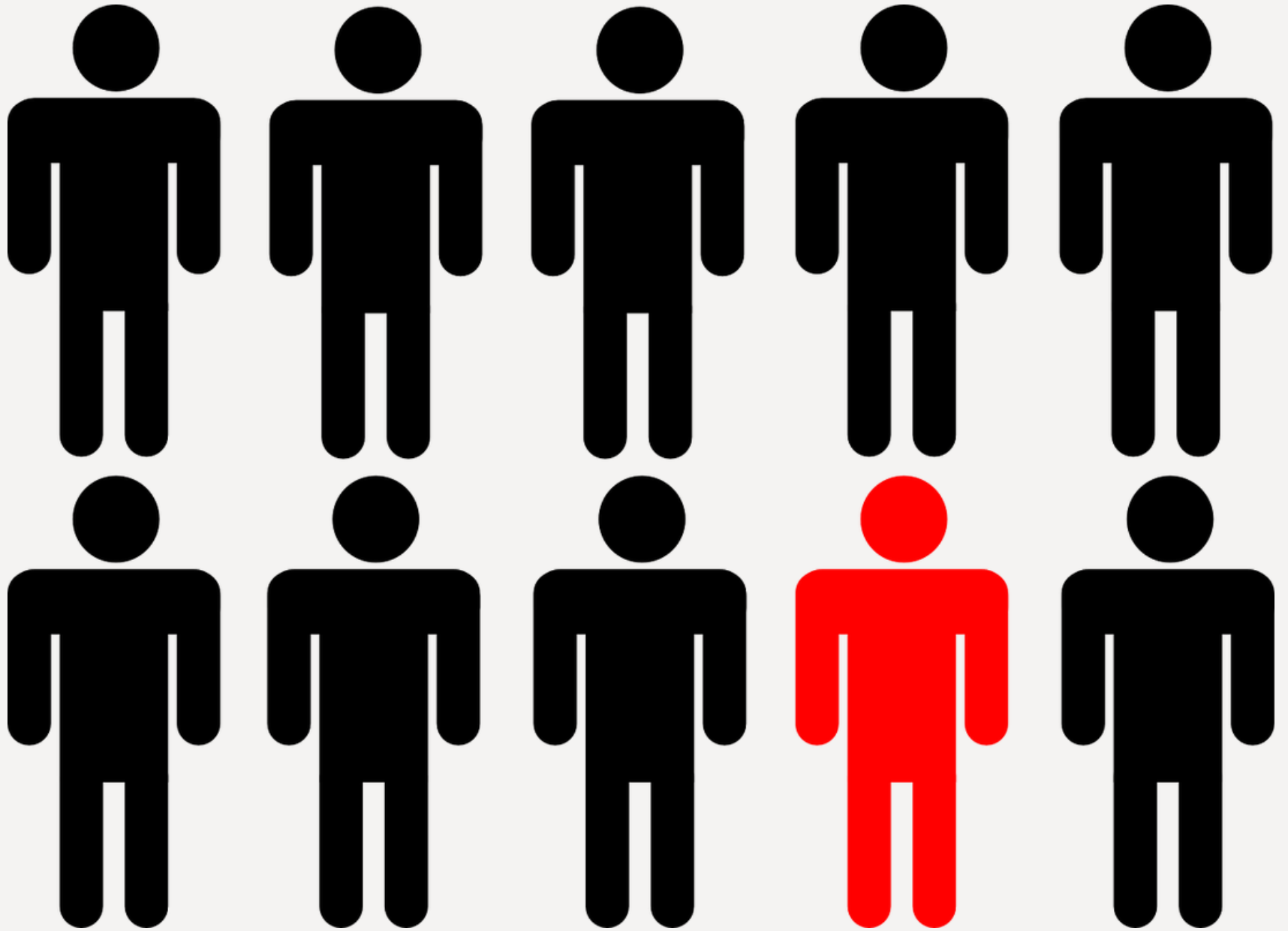
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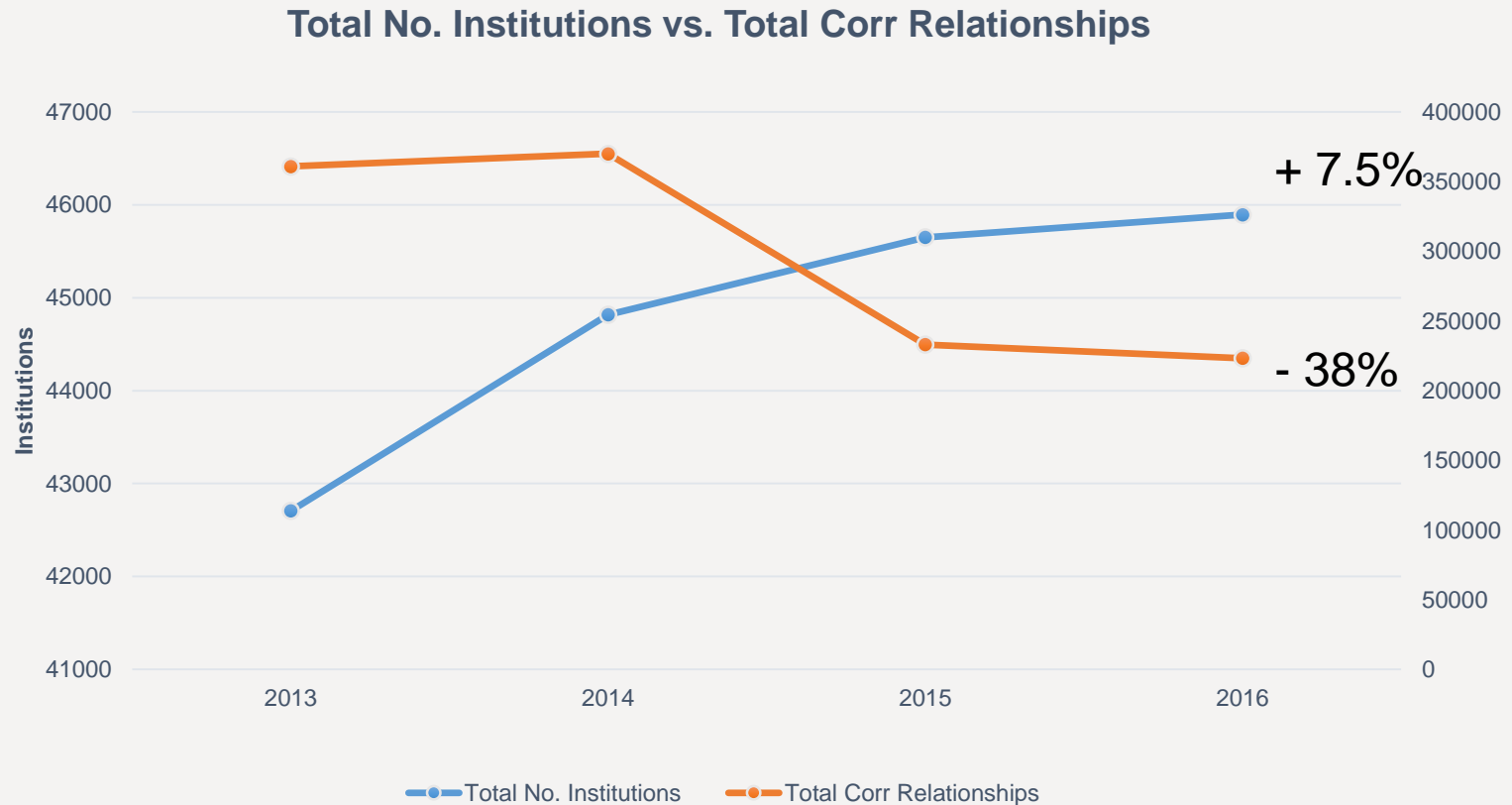
What is De-risking?



What is De- Risking?

- Global financial institutions are increasingly terminating or restricting business relationships with remittance companies and smaller local banks in certain regions of the world – a practice that is called “de-risking.”
- De-risking is indeed happening in pockets around the world – but its effects are unevenly distributed, with some regions more affected than others.
- Smaller countries with limited financial markets are particularly vulnerable to de-risking practice

Per Accuity research, while the total number of banks globally have increased, the number of correspondent relations have gone down



Institutions include Depository Financial Institution, Commercial Bank, Savings Bank, Savings & Loan Association, Credit Union, Industrial Bank, Private Bank, Thrift & Loan, Cooperative Bank, Deposit Taking Institution, Retail Bank, Wholesale Bank, Building Society

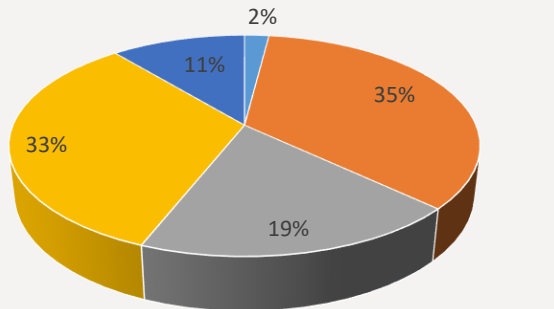
Source: Accuity Global Payments File. 2016 data as of Aug 26 2016

Banking authorities and large banks have reported a reduction in correspondent relationships

55% of banking authorities reported a decline in correspondent relationships

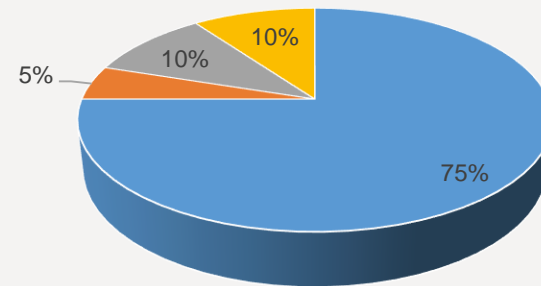
75% of large banks reported they had withdrawn from correspondent relationships

Banking Authorities (All Regions): Nostro Accounts*



■ Significant Increase ■ Significant Decline ■ Some Decline
■ No Significant Change ■ Unknown/No response

Large Banks (All Regions): Vostro Accounts*



■ Decline ■ Increase ■ No change ■ No data provided

Source: World Bank "Withdrawal from Correspondent Banking: Where. Why and What to do About it, Working Paper 101098

Adverse effects of De-Risking

- The **economy of the country** is adversely affected.
- **Small countries** with limited financial markets could be **completely cut off** from access to regulated financial services.
- **Transactions through unregulated channels (AML/CFT risk)**. The Financial Action Task Force recognizes financial exclusion as a risk to financial integrity.
- Decrease in **Trade Finance and cross border remittances** resulting in **loss of revenue**
- **Negative image of the country** w.r.t Risks , thus resulting in loss of Foreign investments





You will
not be
as
lucky !

Factors for Termination

Response taken to avoid your own correspondents terminating/restricting your relationships
Respondent's lack of compliance with AML/CFT or sanctions regulations
Concerns about money laundering/terrorism financing risks
Inability/cost to undertake customer due diligence (CDD)
Does not meet minimum commercial hurdle thus not cost effective to undertake the required CDD/EDD*
Imposition of enforcement actions on correspondent
High-risk customer base of the respondent
Imposition of international sanctions on jurisdiction or respondent
Concern about, or insufficient information about respondent's internal controls for AML/CFT and sanctions, including CDD procedures (for AML/CFT or sanction purposes)
Respondent's jurisdiction subject to countermeasures or identified having strategic AML/CFT deficiencies by FATF (or another international body)
Respondent lets correspondent accounts be used by its foreign branches or subsidiaries, or third party banks, without appropriate disclosure to correspondent, or control matching risk level.
Concerns about negative effects on correspondent's reputation

Source : *FSB Correspondent Banking Data Report 2017*

Proposed solution from FATF

- Correspondent institutions, in assessing the risks of their respondent must ensure that the assessment is sufficiently robust to consider all the relevant risk factors.
- When entering into a business relationship, as a first step, the correspondent institution should identify and verify the identity of the respondent institution, using reliable, independent source documents, data or information
- The correspondent institution should gather sufficient information to understand the purpose and intended nature of the correspondent banking relationship with the respondent institution.
- The correspondent institution should also gather sufficient information and determine from publicly available information the reputation of the respondent institution and the quality of its supervision
- The correspondent institution should assess the respondent institution's AML/CFT controls
- The correspondent institution should also understand how the respondent institution will be offering services available through the correspondent banking relationship to its customers and assess the nature and level of risk associated with offering arrangements

* <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/correspondent-banking-services.html>



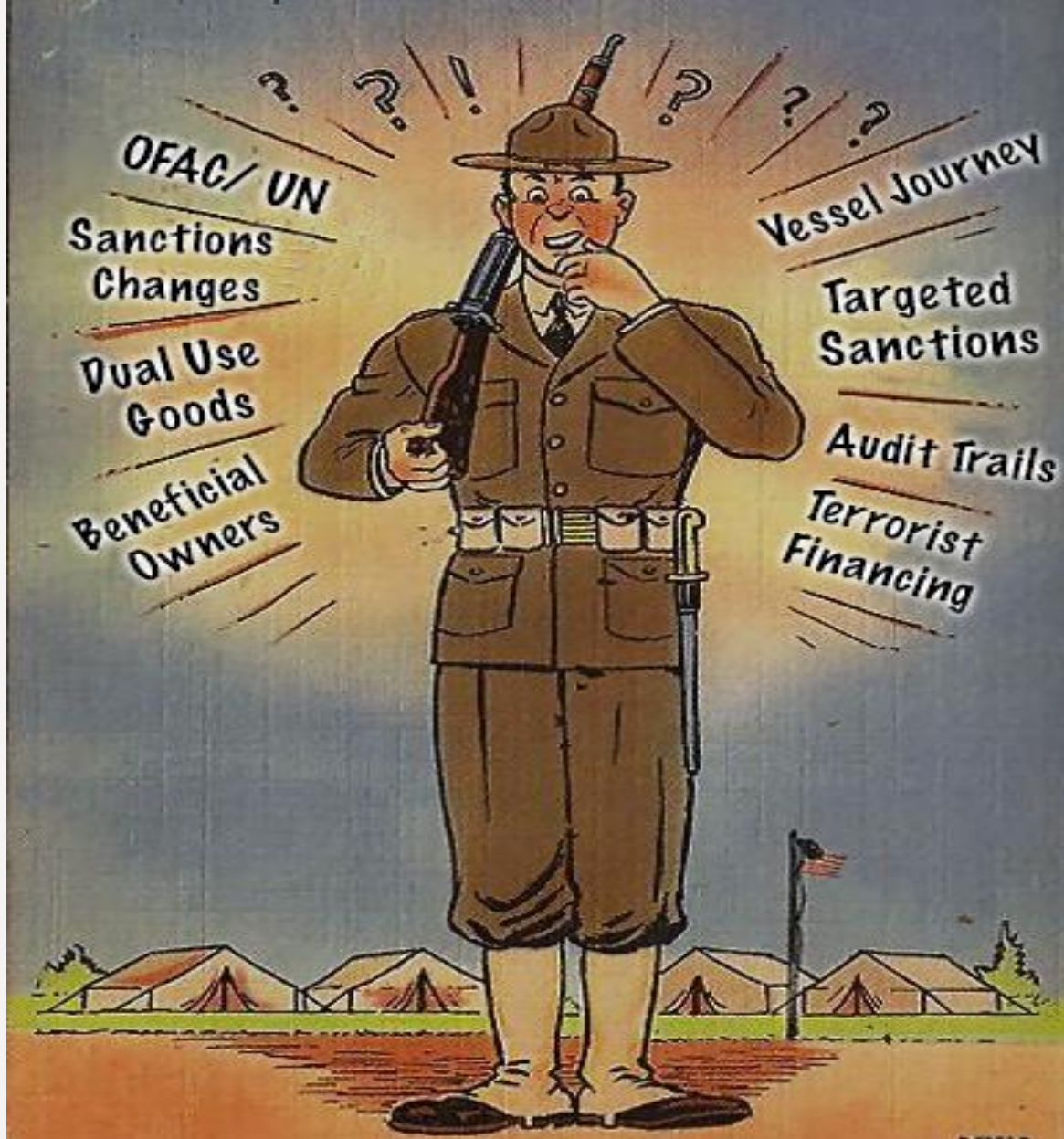
Recommendations

For Financial Institutions

- Review and revise enterprise wide KYC policies and procedures to better identify, manage and mitigate risk.
- Continue to invest resources in Compliance
- Review and fine-tune client on-boarding practices to collect necessary information.
- Assess 'limited' bank accounts that have caps on overall value, frequency of use and size of transactions as a means of extending financial inclusion – lowering the cost and balance AML risks.
- Engage with professional data vendors who can facilitate access to critical and up to date KYC due diligence data.
- Mitigate risk of insufficient CDD by implementing automated screening software.

For the Non Banking FIs, Remittance business and others

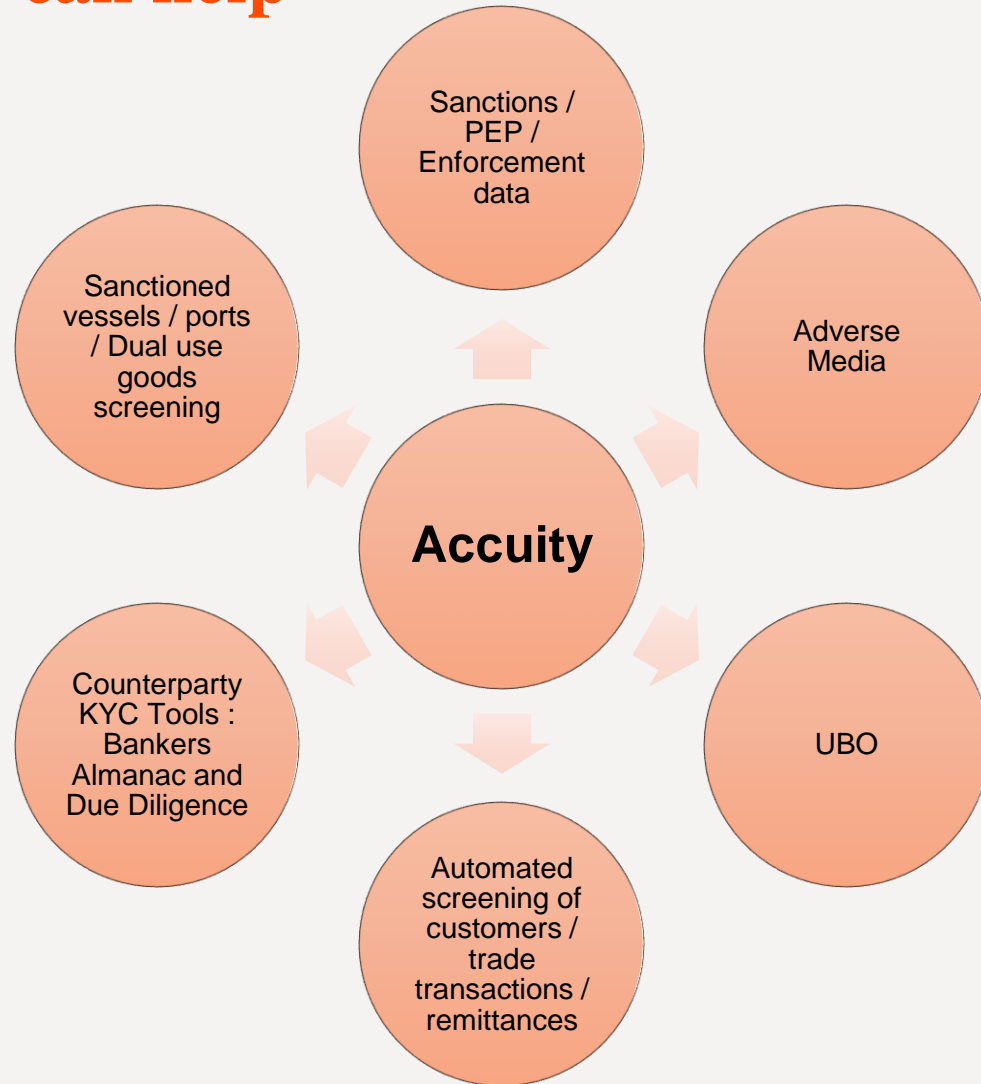
- Continue staff training on AML/CFT standards and practices, flagging suspicious accounts and transactions.
- Conduct sectoral risk based assessments to identify core vulnerabilities and promote effective allocation of resources to mitigate ML risk.
- Focus on ‘front-end’ de-risking by conducting customer screening prior to on-boarding as well as on-going screening.
- When approaching banks, disclose requested information during the onboarding process to demonstrate openness and transparency and to build trust.



Best Practices

- ✓ Central repository of sanctions / PEP / Enforcement / Negative News
- ✓ Not just downloading the lists from various websites, but actually having an automated mechanism in place for list updates and consolidations
- ✓ Going beyond just what is in the sanction lists (adhering to OFAC 50% rule etc)
- ✓ Have access to data which is rich in identifiers and secondary information – make life easier for the reviewer as well as not miss a match
- ✓ Have access to data which is comprehensive enough to help reduce false positives
- ✓ Have access to local PEP data
- ✓ Have access to data around sanctioned vessels, ports, BICs etc

How Accuity can help



Questions?

Thank You!

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