

Withdrawal of Correspondent Banking Relations in the Caribbean

By

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The top portion of the slide features a decorative graphic of several three-dimensional teal dollar signs (\$). These signs are rendered with a metallic, reflective texture and are arranged in a cluster, appearing to float or be part of a larger structure. The background behind them is a gradient of light blue and white, with some faint, larger-scale circular patterns.

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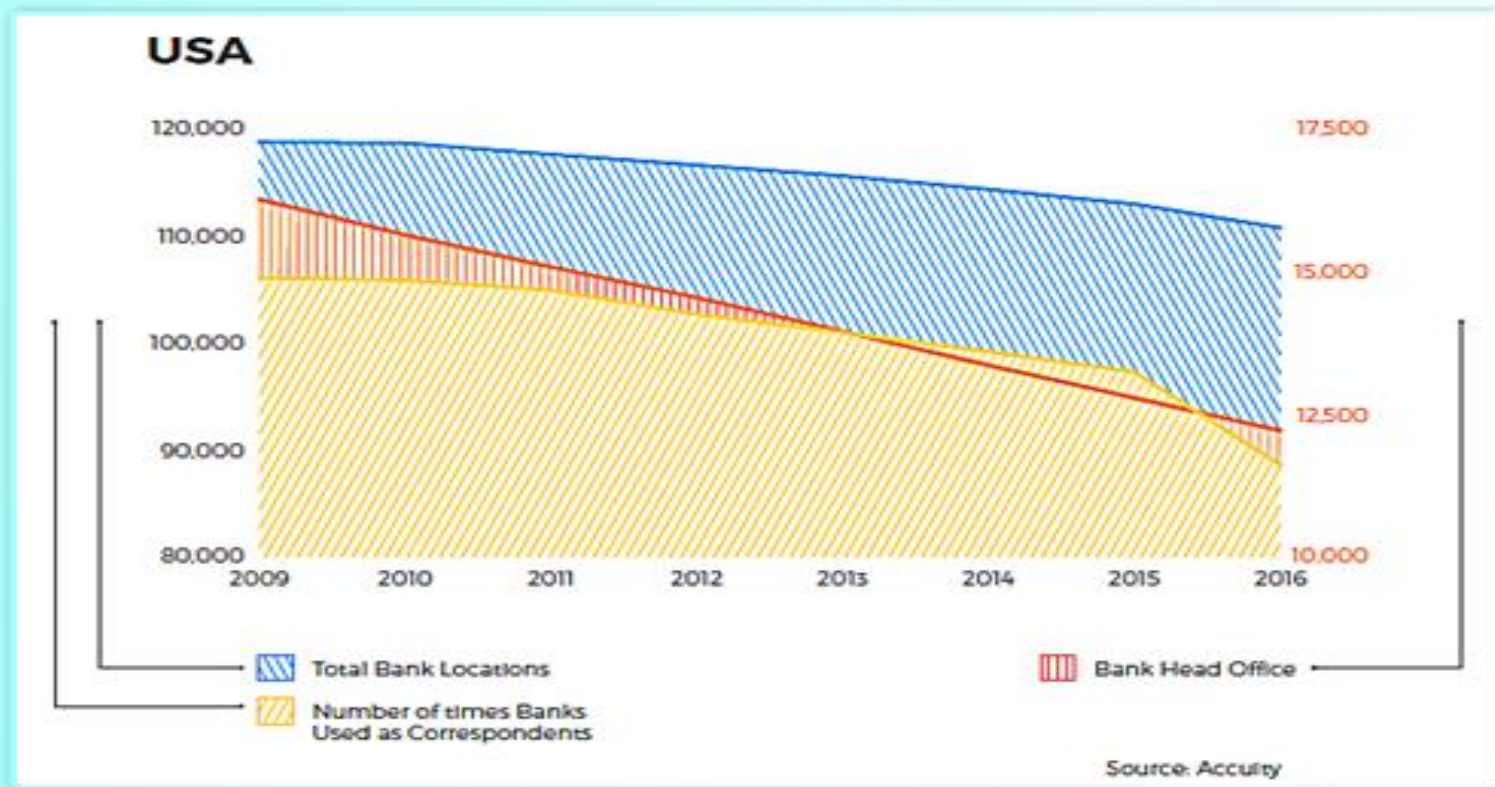
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Phenomenon of De-risking

- Phenomenon amongst the primary factors affecting the region post global financial crisis
- Belize can be considered the pilot country
- Issue has been central to the agenda of Caricom, Governors of Central Banks and ECCU Monetary Council
- De-risking appears to have now peaked

Trends in US Banking and Correspondent Banking Relationships



Caribbean Imports Trade Data – With USA

Country of Origin	2012		2013		2014		2015		2016	
	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value
Total	100	26,667	100	27,942	100	25,789	100	22,519	100	21,462
Subtotal	31.7	8,459	27.4	7,644	29	7,490	33.8	7,609	33.2	7,133
UNITED STATES	31.7	8,459	27.4	7,644	29	7,490	33.8	7,609	33.2	7,133


Trading Partner Ranking representing approximately 10% total of CARICOM's Visible Imports (US\$ M) from all Countries. Source www.caricomstats.info

Regarding invisible trade, statistics from the Caribbean Tourism Organization showed USA remains the primary market for visitors to the region




How Caribbean Jurisdictions and Banks Feature

- No single catch all factor leading to the derisking phenomenon
- At the country level for instance it has been leveled that AML/CFT regulatory and supervisory oversight are lax
- At the institutional level banks are advised of different reasons for being derisked



How Caribbean Jurisdictions and Banks Feature Cont'd

- Respondent banks in the Caribbean are at the receiving end of regulatory and supervisory pressure in correspondent banks jurisdictions driven by factors such as:
 - US State Department's INCSR
 - Tax Transparency Issues relating to a number of Caribbean Countries
 - Fines and the threat of fines have strained relationship

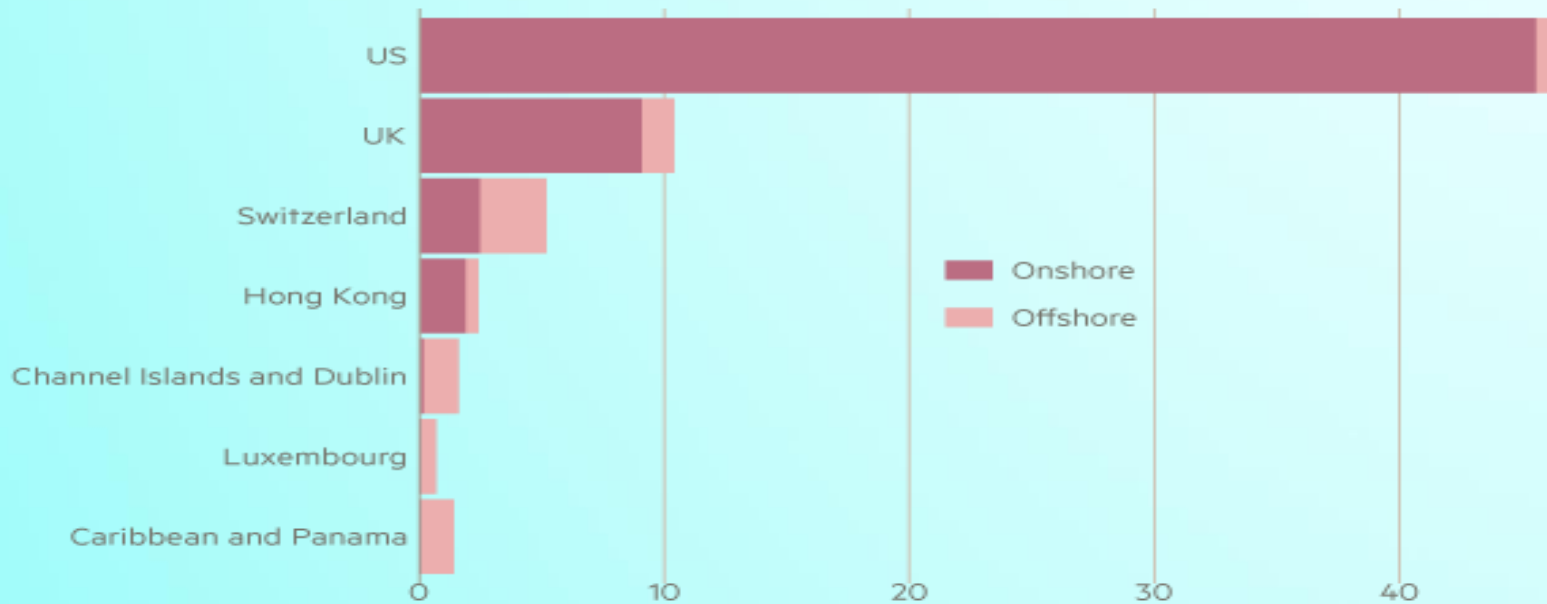


- **INCSR 2015 Report Excerpts - “facts or perceptions”?**

- [Country A] remains a substantial offshore center which continues to be vulnerable to money laundering and other financial crimes. An increase in drug trafficking, a large financial sector, and a growing Internet gaming industry likewise add to its susceptibility.
- [Country B] remains a transit point for illegal drugs bound for the United States and other international markets. The major sources of laundered proceeds are drug trafficking, firearms trafficking, illegal gambling, and human smuggling.
- Exploitation of its offshore financial services, the unique share structure that does not require a statement of authorized capital, and the lack of mandatory filing of ownership information pose significant money laundering risks to [Country C].

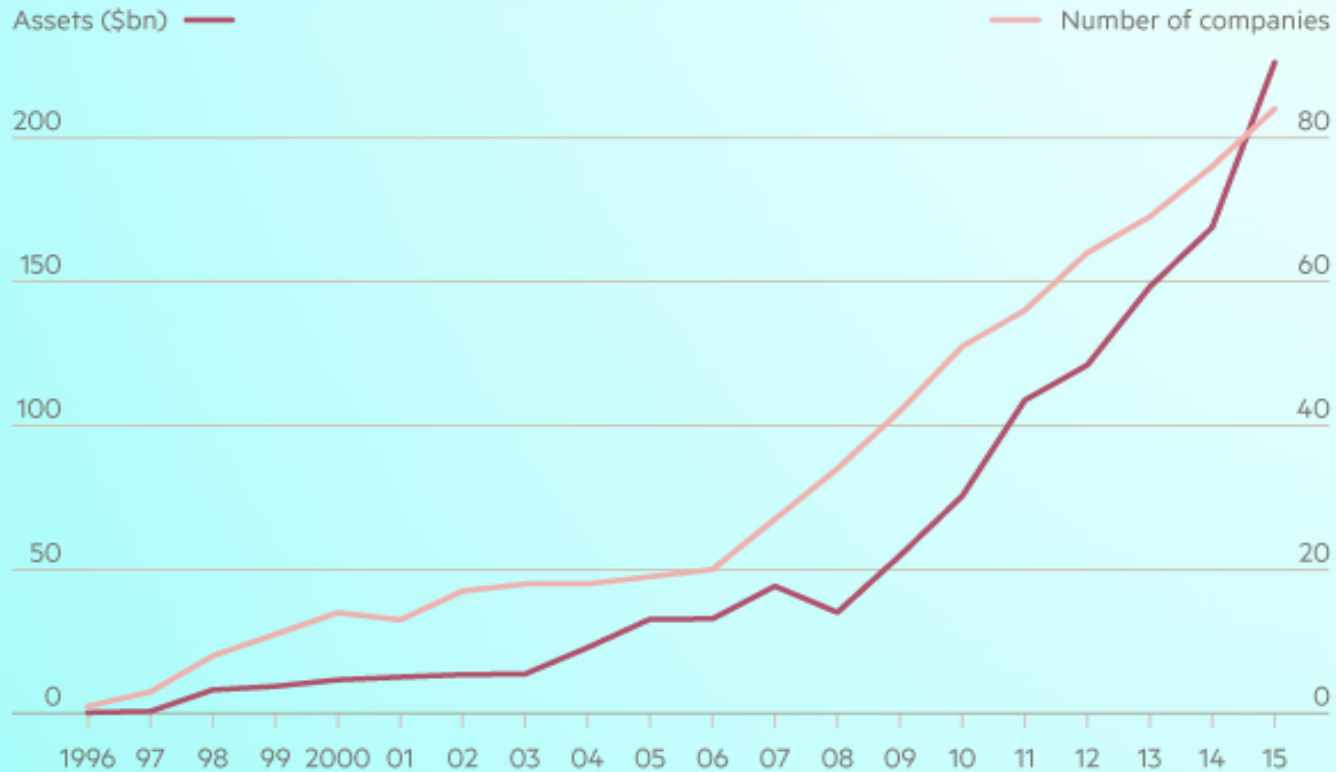
Financial Centre Wealth

Total wealth booked in financial centers
2014 (\$tn)



Trust Companies Formation

South Dakota trust companies



Source: South Dakota Department of Labour Regulation

FT



Tax Transparency

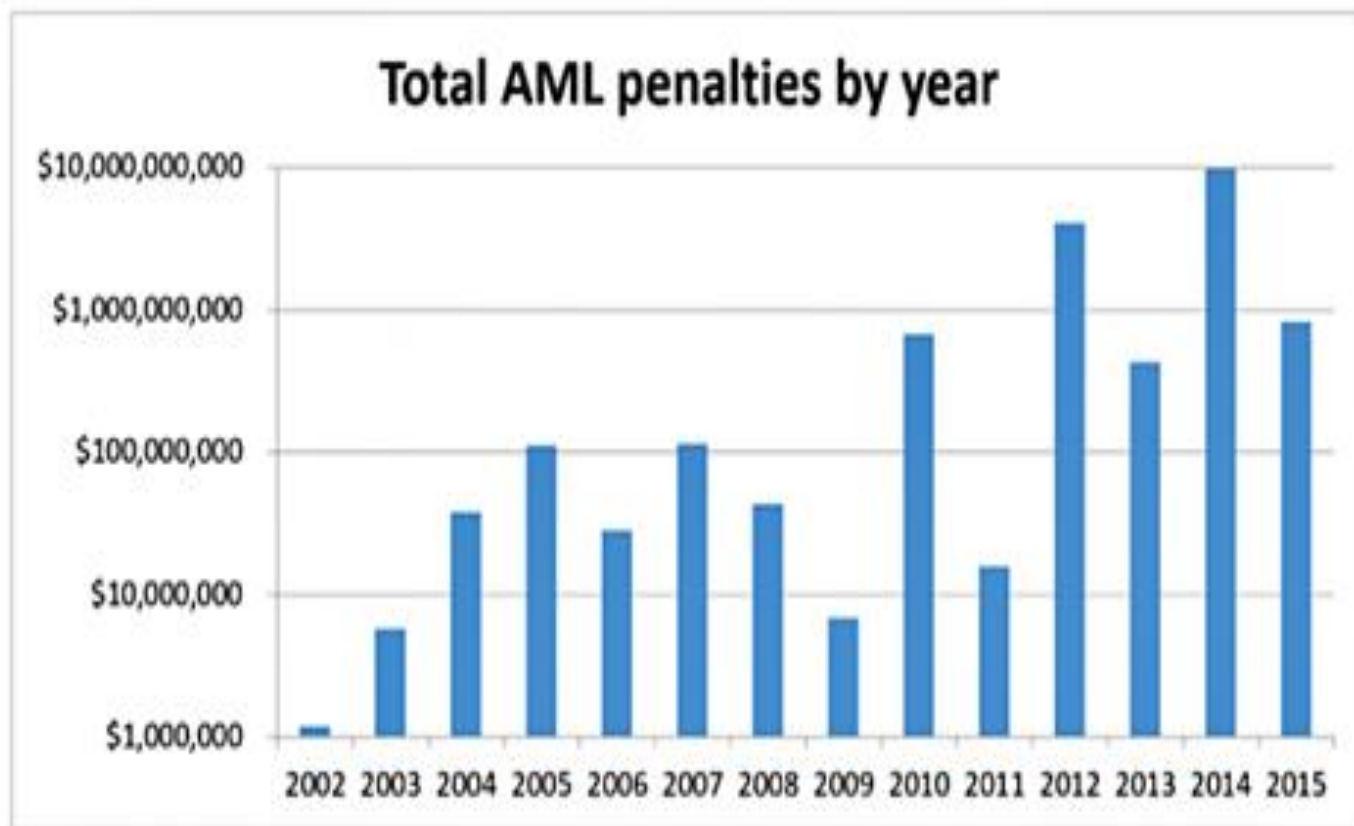
- Remains a legitimate issue (particularly for the EU and USA)
- In December 2017 EU published a list of non-cooperative tax jurisdictions. List adjusted in March 2018
- Reforms needed bring into question as to whether there is a threat to sovereignty
- Jurisdictions inter alia must seek to harmonize the tax rates across banking sector (international and domestic)
- Base erosion and Profit Sharing (BEPS)
 - Tax differential enable companies to move profits to avoid tax

The top of the slide features a decorative graphic of several 3D, teal-colored dollar signs (\$). They are rendered with a metallic, reflective texture and are arranged in a cluster, with some overlapping others. The background behind the dollar signs is a dark teal color, which transitions into a lighter teal gradient as it moves down towards the text area.

Tax Transparency Cont'd

- Cost for non-compliance significantly outweighs any potential benefits Caribbean jurisdictions could reap
 - Correspondent banking relationships with EU domiciled banks
 - Aid and developmental assistance
 - Foreign direct investment

Fines and the Threat of Fines



Source: US Department of Treasury, Office of Foreign Assets Control

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Institutional Challenges

- Correspondent bank changing risk appetite
- Amendments to regulatory and supervisory framework in the jurisdictions that offer the relationship
- Changes to overall business model or business strategy
- Insufficient transaction volumes by respondent institutions



Applicability of Risk Factors

- **Are the risk factors accurately measured?**
 - Financial Services Sector in some jurisdictions has declined over the last 10 years
 - Most jurisdictions have overhauled their regulatory and supervisory framework
 - At the institutional level risk monitoring and risk mitigation mechanism have become more robust
 - Most jurisdictions have received satisfactory ratings from bodies such as the CFATF

A 3D rendering of several dollar signs in a metallic, teal color, arranged in a circular pattern. The signs are highly reflective and have a sense of depth, with some appearing to be in the foreground and others receding into the background. The background is a gradient of light blue and white.

Where Do We Go From Here As A Region?

- Will a new “business minded” Republican Administration bring relief?
- Is there a role for financial technology (fintech)?
 - Barbados-based fintech firm Bitt Inc is a good example
 - ECCB and Bitt Inc signed an MOU
 - Bank of Jamaica has approved certain electronic payment platforms

A 3D rendering of several metallic, teal-colored dollar signs (\$). The signs are arranged in a cluster, with some overlapping others, creating a sense of depth. The background is a gradient of light blue and white, with a white curved line separating the top image area from the text area below.

Regional Response Cont'd

- **Crypto-Currencies/Digital Currencies**
 - Like any conventional method of financing transaction, in using crypto-currency there is the risk of money laundering, terrorist financing, tax evasion and fraud
 - Prior to any consideration being given there must be the development and implementation of a licensing, regulatory and supervisory framework within jurisdictions
 - USA - Uniform Regulation of Virtual-Currency Businesses Act



Regional Response Cont'd

- **Regulatory and Supervisory Framework must remain dynamic**
 - Requires the swift adoption of best practices and standards by the international community
 - Should entail the adoption of supervisory framework such as Basel II
 - Efforts within the ECCU and further afield forging ahead with Basel II must be recognised



Regional Response Cont'd

- **Regulatory and Supervisory Framework must remain dynamic**
 - Requires a reviewing of laws and regulations to determine if they comport with the requirements of the international community
 - Notwithstanding resources constraints, Regulatory Institutions ought to ensure staff members are equipped with the requisite skills to effectively regulate institutions

A decorative header image featuring several 3D-rendered teal dollar signs (\$). The signs are arranged in a curved, overlapping pattern, with some appearing to be stacked or layered. The background is a gradient of light blue and white, with a white curved line separating the image from the text area below.

Regional Response Cont'd

- **Political Level**
 - Ongoing dialogue with key stakeholders
 - Engage the diaspora more directly primarily in areas where there is a significant concentration
 - Tax reform which entails inter alia executing TIEA

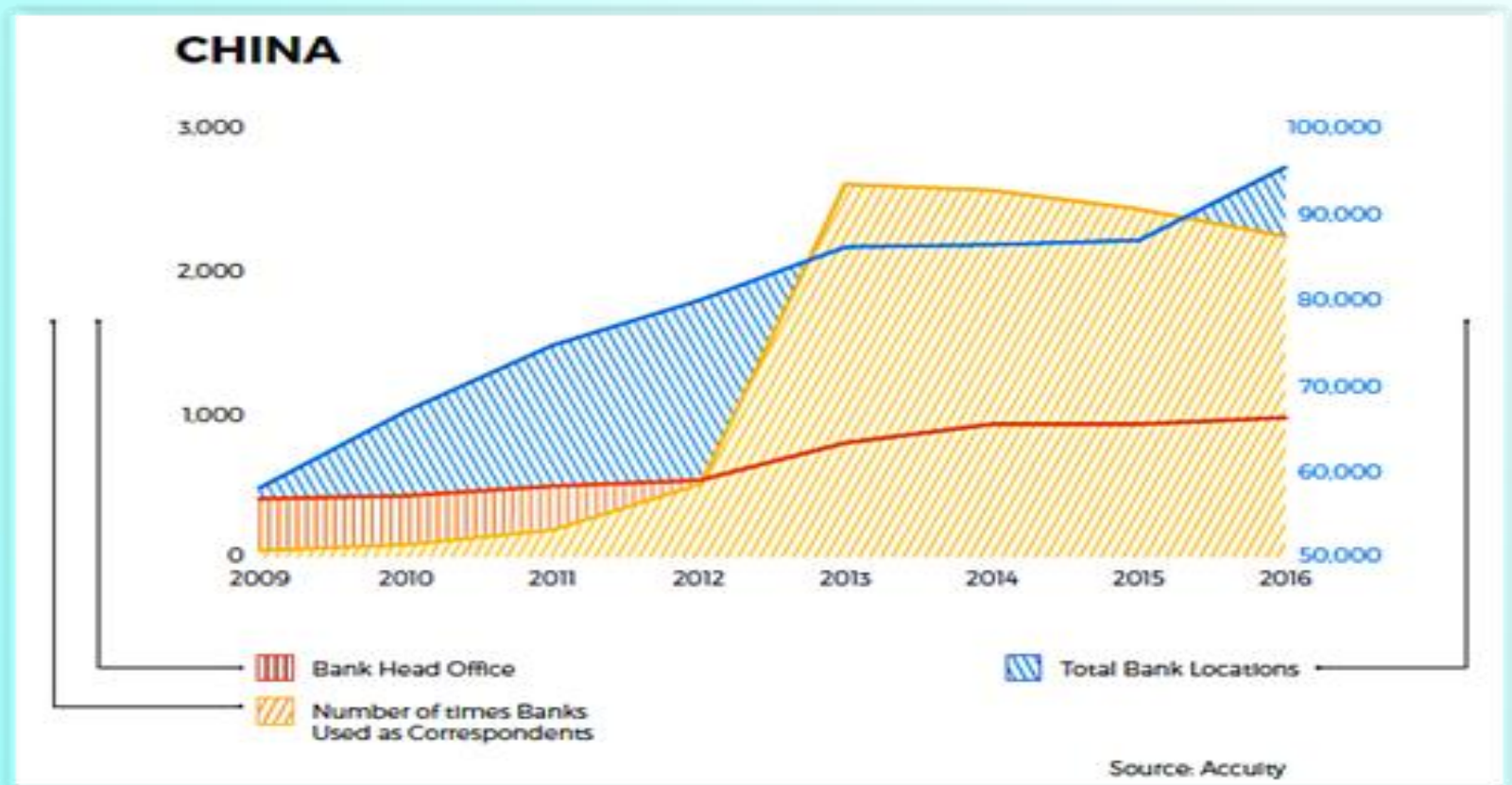
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Regional Response Cont'd

- **Institutional Level**

- Survival requires ongoing enhancements to the AML/CFT risk management framework and the general management of operational and regulatory risks
- Engage your regulators and supervisors as part of the conversation with correspondent banks
- Seek relationship with non-USA institutions
 - Issue of nesting however becomes a concern

Trends in Chinese Banking and CBR





Conclusion

- Region has to be more proactive regarding its approach.
- Region must be open minded as it relates to emerging payment technologies
- Approach requires all stakeholders to be on Board

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