Central Bank Statement on the Threat of De-Risking in The Bahamas

The Caribbean region is uniquely vulnerable to the effects of de-risking, given its reliance on tourism, trade, remittances and foreign direct investments. This fact was confirmed by the World Bank's publication *Correspondent Banking: Where, Why and What to do about it (2015)*. In this publication the World Bank makes special mention of the Caribbean as one of the regions most impacted by a loss of correspondent banking relationships. Given this backdrop, the Central Bank of The Bahamas ('the CBOB') has made the monitoring of any developments in this context a top priority.

To-date, a number of steps have been taken by the CBOB to both understand and address the problem of de-risking in this jurisdiction. Based on a correspondent banking survey (issued in July of 2015), the CBOB determined that most banks managed to maintain their correspondent banking relationships. However, the challenges posed to domestic commercial banks and standalone international banks are disproportionately greater.

The CBOB issued a second correspondent banking survey in August 2016 to build on existing findings about the impact of de-risking on financial institutions locally. The results of the second survey generally suggest an increased incidence of correspondent banking withdrawal, and evidenced that the initial assessments were understated due to the narrower coverage of the first survey.

The CBOB continues to monitor these developments and is engaged both regionally and internationally in efforts to decelerate and arrest these trends. The CBOB maintains an ongoing dialogue with the licensees to seek, first-hand, their experiences and challenges in ensuring retention and replacement of their correspondent relationships, as necessary.

To this end, based on our learnings, the CBOB recommends a range of measures to licensees to manage and mitigate the risks of de-risking.[1]

- **Become familiar with the Wolfsberg AML principles for Correspondent Banking**: The Wolfsberg Group is an association of thirteen global banks which aim to develop frameworks and guidance for the management of financial crime risks, particularly with respect to Know Your Customer (KYC), Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) policies. It is therefore imperative that financial institutions which rely on correspondent banking relationships to facilitate cross border transactions, familiarize themselves with the group's correspondent banking principles, which may assist with understanding what is required in order to maintain correspondent banking relationships with larger financial institutions.

- **Prepare contingency plans:** In the event that a correspondent bank decides to sever ties with a financial institution, a contingency strategy is vital so as to ensure the institution's smooth operation even in the absence of one or more correspondent banking relationships. A contingency plan in relation to correspondent banking should aim to either secure a replacement correspondent banking relationship, or find alternative payment methods.

[1] Wolfsberg Anti-Money Laundering Principles for Correspondent Banking, 2014; IMF Staff Discussion Note: The Withdrawal of Correspondent Banking Relationships – A Case for Policy Action (June 2016); and FATF Guidance: Correspondent Banking Services (October 2016).

- **Improve communication with home authorities and global banks to understand the nature of their risk management concerns:** Correspondent banking relationships by their very nature are based on trust. Communication with global banks offering correspondent banking services and their respective home supervisors is essential to maintaining strong correspondent banking relationships. Doing so also helps your financial institution better understand the concerns of global banks with respect to risk management protocols.

- **Continue to promote internal standards, document operating procedures; continue staff training on AML/CFT standards and practices, flagging of suspicious transactions, and whistleblowing:** Staff training is essential to reduce the likelihood of oversight with regards to money laundering and/or terrorist financing. It is important that local banks have trained staff capable of properly vetting clients and monitoring transaction activity. This is especially important given that based on perception of undue risk exposures in a respondent bank by mere association or negative media reports, large global correspondent banks services may choose to avoid the risks by curtailing or revoking correspondent banking relationships.

- **Focus on "front end" de-risking by conducting enhanced assessments prior to client on boarding:** Financial institutions should make strong efforts to enhance client on boarding practices so as to provide correspondent banks with an added layer of confidence in the institution's risk management protocols. Licensees are encouraged to embrace innovative software solutions which are able to immediately generate risk ratings for prospective clients that the institution is considering on boarding.

- **Disclose requested information during the on boarding process when approaching banks to demonstrate openness and transparency, and to build trust:** It is important that licensees strive to strike a balance between disclosing requested information, and maintaining client confidentiality when establishing correspondent banking relationships. Showing a willingness to provide the requested information (so long as it does not materially damage the confidentiality of a client(s)) fosters openness and transparency between the parties involved.

- **Invest resources into enhancing KYC/CDD/EDD resources:** A thorough audit of KYC/CDD/EDD protocols should be completed by licensees so as to assess the alignment of current methods by comparison to international standards. Inadequate KYC protocols could potentially lead to a loss of correspondent banking relationships and/or restrictions that further complicate cross-border transactions.

Cognizant of the vital role that correspondent banking plays in the functioning of The Bahamas' financial services industry and the wider economy, the CBOB is committed to continually monitor any developments in this area both regionally and internationally. To this end, licensees are advised to promptly notify the CBOB of either the potential or imminent loss of a correspondent banking relationship. In the interim, licensees are encouraged to maintain strong relationships with their correspondent banks, while ensuring that their risk management programmes are robust and adequate.

Questions regarding this notice should be directed to:

The Policy Unit
Bank Supervision Department
Central Bank of The Bahamas
Frederick & Market Streets
P.O. Box N-4868
Nassau, Bahamas
Tel: (242) 302-2615
Fax: (242) 356-3909
Email: Policy@centralbankbahamas.com

18th November, 2016