IMF Conference on Correspondent Banking Relationships: Policy Responses and Industry Solutions

Remarks by Svein Andresen, Secretary General, Financial Stability Board

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On behalf of the FSB and its Chair Mark Carney, who could not be here today, I would like to thank the Managing Director and the IMF and for organising this conference, and for our close cooperation on this issue. Your opening remarks have not only starkly explained the problem that brings us here today, but also compellingly show why we need to cooperate and coordinate across the public and private sector to address it.

Losing access to correspondent banking services affects the ability to send and receive international payments, which is essential for companies to finance trade and individuals to send remittances. This loss of access may drive some payment flows underground, and have potential consequences on growth, financial inclusion, as well as the stability, integrity and integrated nature of the financial system.

I will focus my remarks on the action plan being coordinated by the FSB to assess and address the decline in correspondent banking. This action plan is benefitting from strong contributions by the IMF and World Bank, as well as other international organisations and national authorities.

The FSB's involvement dates back to January last year. After a series of initial meetings, including with the FSB's six Regional Consultative Groups, that raised awareness of the issue, FSB members agreed that coordinated work was needed across the international organisations, standard setters and national authorities to understand the extent of the problem, its causes and effects, and the actions that can be taken to address it.

This resulted in the action plan presented to G20 Leaders in November 2015. And at the start of this year the FSB and its members set up a Correspondent Banking Coordination Group, chaired by Alex Karrer of the Swiss Ministry of Finance, to implement that plan.

I will take a few minutes to describe progress being made on the action plan, on which we will report in greater detail at the end of this year. But let me highlight at the outset that there is no quick fixes for addressing this problem. Collaborative work will need to continue in the years ahead. Today's discussions will be helpful in supporting the implementation of the plan and shaping that future work.

The action plan has pursued four lines: First, data collection and analysis to further examine the dimensions and implications of the issue; second, clarifying regulatory expectations on correspondent banking; third, domestic capacity-building in jurisdictions that are home to affected respondent banks; and fourth, strengthening tools for due diligence. I will describe each action in turn.

Concerning the first action, data collection and analysis, the World Bank survey already last year identified that over half the jurisdictions surveyed (49 of 91) reported that their banks were experiencing a decline and that three-quarters of the large correspondent banks surveyed had reduced the number of respondents they dealt with. Subsequently, the Committee on Payments and Market Infrastructures (CPMI) analysed an extensive SWIFT data set. Their report, published last July, showed at least some decrease in the number of active correspondents in over 120 countries, with the decline exceeding 10% for some 40 of them.

However, globally, overall transaction volumes in correspondent banking was shown to have grown and most affected respondent banks reported at the time that they were able, where needed, to find replacements.

Though, while it appears that overall *global* volumes of activity have not suffered to date, this gives little cause for comfort. Subsequent narrower surveys indicated that an increasing number of countries are being affected. And there are clear signs of greater concentration in the correspondent banking market. This is a concern for jurisdictions where there were already only a few service providers to start with. The extent and impact of this concentration need to be better understood.

Another change in the market is the shift in some affected countries to reliance on smaller correspondents, perhaps more complex chains of correspondents, and also new entrants. These channels have helped banks in some countries to maintain access. Finally, some categories of bank customers that are perceived as higher risk, such as remittance companies, have difficulties preserving their bank accounts and their ability to transmit funds.

To better understand these changes and their impacts, the FSB launched last month another survey, with the assistance of the IMF and World Bank. This will collect more granular data than previous surveys, including individual bank data on an anonymised basis. National authorities in some 50 jurisdictions are participating, and together they have invited over 350 banks to contribute. Banks' responses are due in the next few weeks, and comprehensive analysis of the results will be presented early next year. We are grateful for banks willingness to participate.

Beyond this, the Coordination Group is discussing how to collect in the future a simpler set of regular data to monitor trends, so that we can clearly see over time whether the problem has been arrested or even begun to reverse.

The second element of action is the clarification of regulatory expectations, notably regarding AML/CFT standards and related supervisory guidance. As input, the Coordination group developed a list of potential areas for further clarification based on a review of work by the FATF, CPMI, and the Basel Committee on Banking Supervision, as well as the analysis of requests from public sector and industry sources.

As we will hear from FATF's President, Juan Manuel Vega Serrano, later today, FATF will cover many of these areas in its forthcoming guidance on correspondent banking. FATF discussed a revised draft of the guidance in June, organised a consultation with the private sector over the summer. The FATF consultative version of the guidance helpfully confirms that its standards do not require correspondent banks to conduct due diligence on the customers of their respondent banks ("know your customer's customer" or KYCC). However, respondent banks are expected to answer requests for information by their correspondent on any particular transaction as a part of ongoing monitoring. This may lead to a correspondent requesting information on a specific customer or customers of the respondent institution.

Among the topics that FATF will discuss at its October meeting is also a potential revision of the definition of correspondent banking.

The FATF has also updated its guidance in two areas particularly exposed to the consequences of the decline in correspondent banking, namely money or value transfer services and non-profit organisations.

In parallel, the Basel Committee will further clarify of its own existing guidance to complement FATF's work, with a focus on the use of facilities containing "Know Your Customer" information ("KYC utilities") and the quality of payment messages. A public consultation by the Basel Committee is expected later this year.

The Coordination Group has also considered the potential role of uncertainty from economic sanction regimes in the decline in correspondent banking, and has encouraged relevant national authorities to issue guidance on their national or regional sanction regimes, and engage with interested parties.

The third action in the action plan supports domestic capacity-building to improve and build trust in the supervisory and compliance frameworks of affected jurisdictions.

In order to help with the coordination of capacity building assistance to affected jurisdictions, the Coordination Group has established an inventory of technical assistance and training being provided by the official sector. At present, the inventory covers 158 countries. The IMF is leading this work stream, working closely with a number of other providers of technical assistance, such as the World Bank and regional development banks, individual jurisdictions, as well as FATF-style regional bodies. To better assess potential needs for technical assistance, the work stream also reviewed information on the countries potentially affected by a decline in correspondent banking, based on the results from past data collection exercises and public reports.

In July this year, the G20 called on its members and the IMF and World Bank to intensify their support for domestic capacity building. The FSB's work stream seeks to support this through efficient coordination between providers of technical assistance, and identification of excess of demand over supply, so that adequate resources can be mobilized to assist jurisdictions as needed.

The FSB is also encouraging the banking industry to complement official sector work through their own capacity building initiatives. Correspondent banks are well placed to support improvements at respondent banks, including by helping to identify what measures respondents should proactively undertake in order to avoid account closures. The Wolfsberg Group, an industry body, is pursuing several initiatives in this area.

The FSB and its members, as well as FSB Regional Consultative Groups, are also fostering dialogue between correspondents and respondents through workshops and seminars. And bilateral meetings such as the ones organised by the United States with banks and authorities of specific countries or regions, are helping to identify improvements and dispel misunderstandings.

As a complement to these capacity building efforts, it is vital that countries with affected respondent banks, and those banks themselves, adequately publicise improvements they have made to their AML/ CFT defences. We encourage countries to share lessons learnt: the IMF Staff Discussion Note published last June provides examples of measures taken, with some successes in preventing or stemming a decline, although we would obviously like to see more of those.

Finally, the fourth action involves strengthening the tools banks have for conducting due diligence. The CPMI published in July recommendations that could help achieve more efficient due diligence at a lower cost. Their implementation will require ongoing cooperation by a number of public sector and private sector bodies and is being jointly monitored by FSB and CPMI. The proposed actions include:

- **First, promoting the use of KYC utilities, and the standardisation of information and data in KYC utilities, to avoid duplications in the collection of information.**
- **Second, encouraging the use of the global Legal Entity Identifier (LEI) in correspondent banking, and including the LEI on an optional basis in payment messages.** Adding the LEI may reduce the number of requests for additional information by correspondents to their respondents. Authorities will also assess potential uses of the LEI as a means of accessing reliable information to support customer due diligence in correspondent banking, and are continuing more broadly to promote wider use of the LEI. The Payments Market Practice Group or PMPG, which gathers users of the SWIFT messaging system, has responded positively this call and issued last month a discussion paper on the *LEI in the payments market*.
- **Third, promoting information sharing in the banking industry may increase efficiency and reduce the risk that some customers are abandoned.** This information sharing could be within financial groups, among financial institutions not part of the same group, and between the public and the private sector. The FATF has initiated a dialogue on this, and the IIF is conducting a survey of its member banks to identify obstacles.
- **Fourth, recommendations on the correct use of payment messages, to improve the quality of information provided.** This should combine improvements in industry best practice and actions by supervisors. The PMPG and the Wolfsberg Group have been invited to contribute.

To conclude, the decline of correspondent banking is the result of multiple causes. No single action will be sufficient on its own to reverse the trend. This is why continued cooperation and coordination within and between the public and private sectors is needed. The FSB will publish a report at the end of this year on progress under the coordinated plan, and on next steps. Today’s meeting is a further opportunity to exchange views on the measures already identified and also discuss what possible additional steps could be taken. I am looking forward to participants’ views and suggestions.