Alliance for Financial Inclusion

Bringing smart policies to life

The Interrelationship of De-Risking and Financial Inclusion

Central Bank of Egypt / Egyptian Banking Institute 9th Annual Conference
Cairo, 8th May 2017

De-Risking: What is at stake for financial inclusion?

- Financial Action Task Force, 2014:
  - ***De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships*** *to avoid,* ***rather than manage, risk****… De-risking can be the result of various drivers…* ***It is a misconception to characterise de-risking exclusively as an anti-money laundering issue****.*

- Alliance for Financial Inclusion, 2016:
  - *Continued* ***de-risking by financial institutions presents a threat of reversing the financial inclusion gains*** *that have been made, particularly in small and post-conflict states.*

- World Bank Group, 2016:
  - *If the current trend continues, people and organizations in more volatile areas or in small countries with limited financial markets* ***could be completely cut off from access to regulated financial services****.* ***We know that de-risking is happening****.*

Overview of Key Global Developments

Part One: Awareness raising and Analysis, 2014-5

- **Awareness of De-Risking Raised at dedicated de-risking discussions** held during the AFI 2014 & 2015 Global Policy Forums; and IMF/World Bank Spring & Annual Meetings. **Enhanced media and public scrutiny** on balancing financial crime obligations with financial inclusion

- **World Bank surveys** conducted on behalf of the G20 Global Partnership for Financial Inclusion (GPFI); **Additional analysis undertaken by a range of bodies**: for example, FSB, FATF, Institute of International Finance (IIF), Commonwealth Secretariat, IMF, European Banking Federation and some domestic regulators.

- **AFI and the G-24** conduct a qualitative study to gather evidence on de-risking impacts and potential solutions: subsequent deep dive discussions.

Part Two: The Search for Solutions gathers pace at Global & National Levels, 2016-7

- **FSB** launches action plan for correspondent banking; **IMF & World Bank** strengthen work on de-risking; FATF publishes correspondent banking guidelines.

- **AFI** Integrates De-Risking into Regional Initiatives and FinTech Peer Learning, and AML-CFT Capacity Building.

Analysis: Why is De-Risking happening?

- General acceptance that the **scale** of de-risking vary between specific remittance corridors, jurisdictions and local circumstance.
- Countries subject to sanctions or considered ‘fragile’ most impacted.
- In a small number of instances countries reported only being left with minimal levels of correspondent banking provision.
- Not just a global bank issue; de-risking by domestic banks of certain customer and business types is occurring
- AFI/G-24 research show **driver**s of de-risking included:
  - Risk and Uncertainty;
  - Presence of UN and/or Unilateral Sanctions;
  - Regulatory Environment - Cross Border and Local;
  - Overly Stringent Local Application of AML/CFT Requirements;
  - Cost of Compliance;
  - Know Your Customer Requirements;
  - Reduced Risk Appetite from FIs for Higher Risk Situations;
  - Broader International AML-CFT Environment with increased focus on Countering Financing of Terrorism, and links to transparency/tax avoidance.

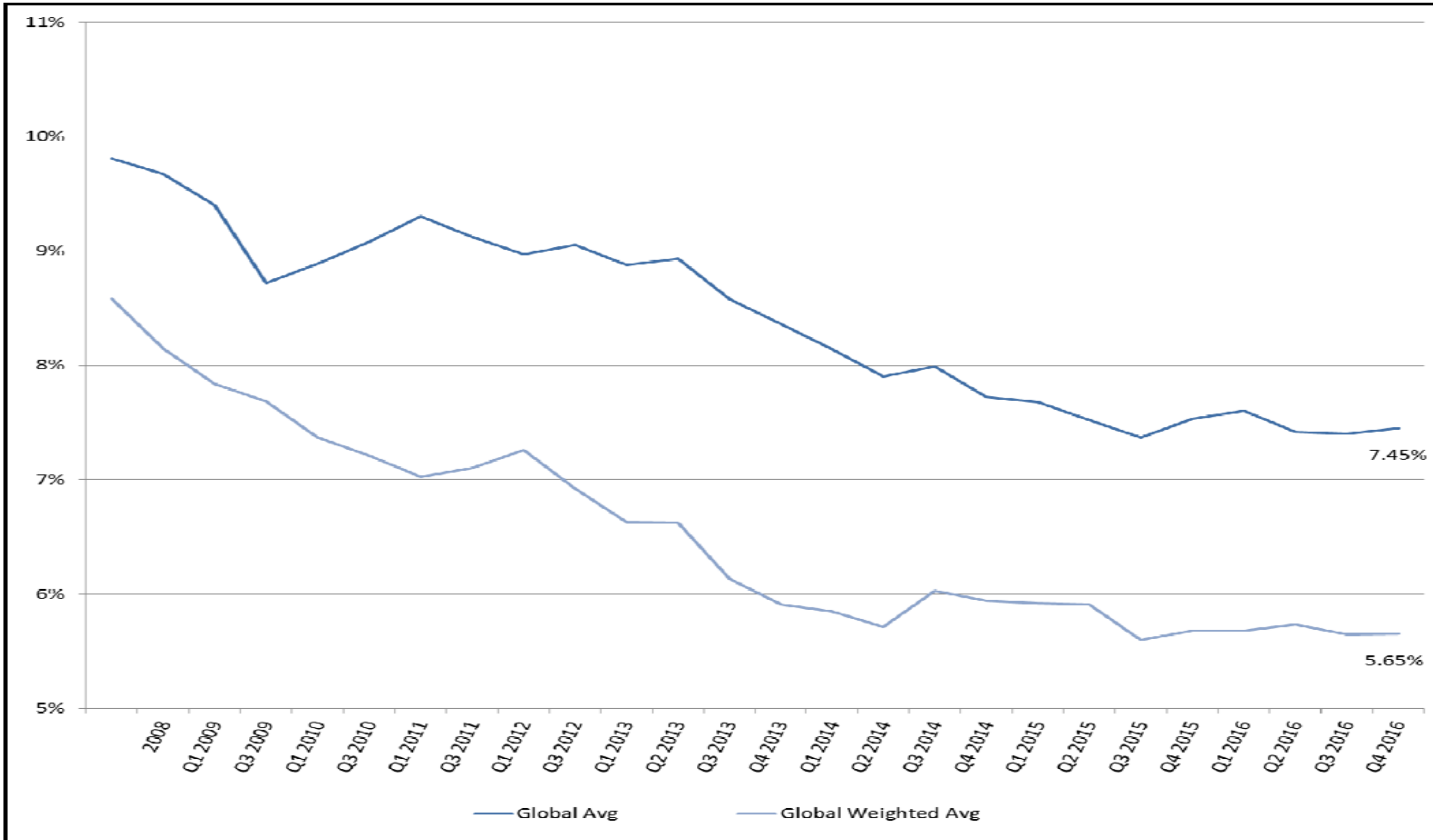
De-Risking & Correspondent Banking

- World Bank, IMF, and Financial Stability Board (FSB) research concurs that there has been a marked decline in correspondent banking relationships.
- **FSB, 2016:** *“**A decline in the number of correspondent banking relationships is a source of concern for the international community** because it may affect the ability to send and receive international payments, or drive some payment flows underground, with **potential consequences on growth, financial inclusion, as well as the stability and integrity of the financial system**.”*
- 2016-7: Global efforts to react to CBR decline intensify as FATF publishes guidance on Correspondent Banking; FSB publishes 4 point action plan

De-Risking & Remittances

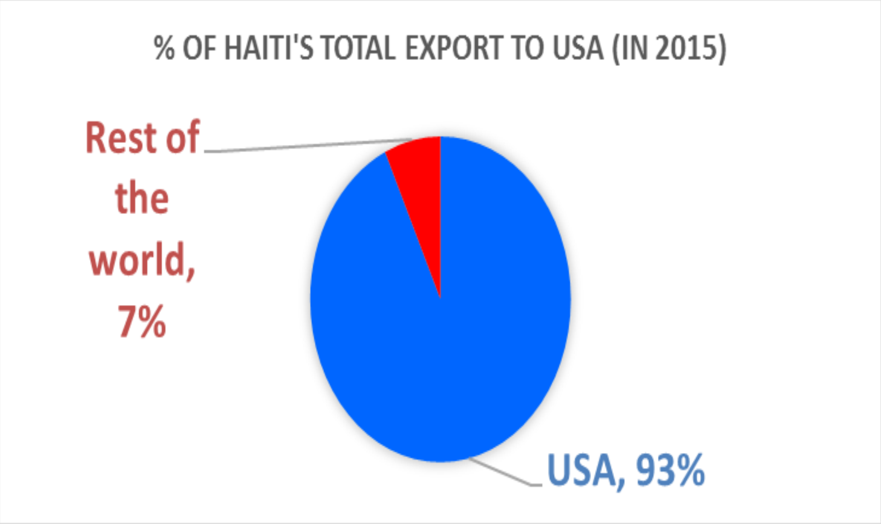
Increase in De-Risking is linked to slowing fall in the cost of remittances

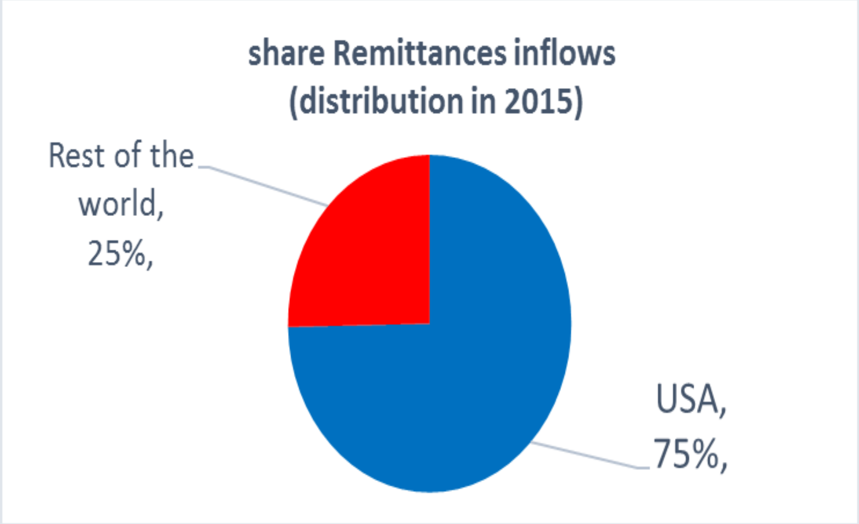
(Chart: World Bank Group, global average cost of sending a $200 transfer)



De-Risking Case Study: Haiti

- Over the past 5 years, domestic financial institutions have lost 3 US correspondent-banks.
- Two US banks have ended their relationships with one domestic Money transfer Operator.





- *"Any situation where the Haitian financial system would be isolated from the US international correspondent banking relationships, will have negative socio-economic impacts on the country as a whole"* (Banque de la République d'Haiti)

De-risking – greater awareness and deepening discussion

Increasing global awareness

Oct 2014
AFI's Global Standards Committee (GSC) escalated de-risking at High-Level Meeting with SSBs.

Nov 2015
FSB introduced 4-point plan to address decline in correspondent banking.

Sep 2016
- AFI-G24 published special report "Stemming the Tide of De-risking"
- AFI GPF highlighted worsening situations with de-risking.

Oct 2016
Governor Ibrahim's presentation on the "Risks of Financial Exclusion" to SSBs

Dec 2016
AFI's Conference on linkages between financial inclusion and stability noted that the decline in correspondent banking is posing risk to financial stability.

Dec 2016
FSB issued progress report on its 4-point plan and set out deliverables for 2017.

Upcoming Opportunities

- AFI - BMZ Forum on Financial Inclusion for Forcibly Displaced Persons (FDPs) will highlight FDPs as particularly affected by de-risking (April 2017)
- Regional workshops on de-risking in MENA and Pacific Island (May - June 2017)
- AFI's ongoing dialogue with the SSBs

Deepening discussion on de-risking over time

* Adapted from the presentation at the GSPWG meeting by GSPWG Chair

Summary of recommendations by the AFI-G24 report to halt de-risking

- **Voice amplification** - Impacted countries must be more engaged in the global debate on identifying solutions to de-risking.
- **Increase broader understanding of how impacted countries address de-risking concerns**
- **Overcome risk-reward dilemma** - provide guidance on how to manage high risk scenarios without withdrawing from such relationships
- **Clarifying cross-border regulatory expectations** – providing principles to banks when terminating accounts as well as guidelines to smoothen and reduce impact of closure
- **Supporting Innovation** - supporting the use of DFS and customer identification technologies, including the use of KYC utilities

- **AFI's recommendations are largely aligned with the recommendations by stakeholders, including the FSB's 4-point plan.**
- **AFI GSPC will lead work to accelerate the progress to translate recommendations into practices, given that some jurisdictions continue face de-risking**

Technological Solutions to De-Risking?

- KYC Utilities
  - Example: Monetary Authority of Singapore, National KYC Utility
- Biometric Identity to enhance KYC compliance
  - Example: Aadhar National ID card, India
- FinTech solutions for remittances
  - Example: KlickEx Money Transfer, Pacific Islands Region

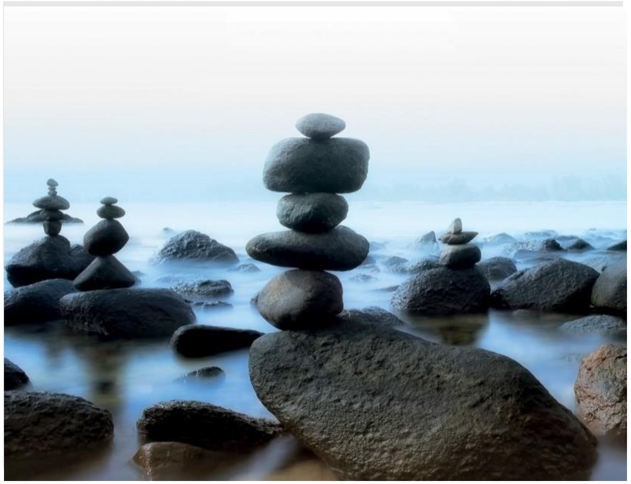
But **Technological Innovation alone** unlikely to provide all the answers…..

" I wish it was true that technology holds the answer to stem de-risking. Technology cannot solve this problem."

Governor Jean Dubois, Banque de la République d'Haiti (2016 AFI Global Policy Forum)

Next Steps & Key Action Areas

Promoting Re-Risking: AFI Action Areas



Integration of De-Risking as a Core Topic in the AFI Regional Initiatives

- Pacific Islands
- Caribbean
- Financial Inclusion in the Arab Region

Amplify the voices of developing countries in the global dialogue

- Application for FATF Observer membership
- Convening of IMF, WB, FSB at G24-AFI Roundtables

Thought Leadership on FinTech solutions to check De-Risking

- GPF Innovation Marketplace
- FinTech for Financial Inclusion Peer Learning and Member Training

Capacity Building on AML-CFT & Financial Inclusion

- First dedicated Member Training in Kuala Lumpur (Oct, 2017)
- Peer Learning on National Risk Assessments & Mutual Evaluations

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