



Impact of De-Risking in the Caribbean

G24 Technical Group Meeting

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Issues Raised At the Caribbean Community (CARICOM)

- ▶ At the 26th Intersessional Meeting of Heads of Government in February 2015, Heads of Government expressed grave concern that the Region was being labelled as a high risk area for financial services, resulting in correspondent banks in the US and major banking centers in Europe evaluating risks versus rewards in doing business with indigenous banks and banks in the offshore sector of the Region.

Issues Raised at CARICOM

- ▶ They noted that in many cases, the small indigenous banks were unable to provide a high level of reward, causing the correspondent banks to cease their relationship with them which could have the result of causing those banks to close their doors;
- ▶ The Heads therefore established a Committee of Finance Ministers to work with the Caribbean Association of Banks (CAB) to develop a plan to treat with this matter, including making strong representations at the WB, IMF, within the Commonwealth and La Francophonie and if necessary, at the UN

Summary of Reports Reaching the CAB

- ▶ In a memorandum to its members dated May 13, 2015, the Chairman advised as follows:
- ▶ One member has received notification from their main US correspondent advising them that they are reviewing the relationship, as it is no longer in line with their business strategy. In addition, another correspondent has advised that they are reviewing the jurisdiction with a view to ascertaining whether they will continue to service banks there
- ▶ One US correspondent has stopped processing US checks for some members

Summary of Reports Reaching the CAB

- ▶ Some members have tried to establish new relationships but have been denied, with no clear reasons provided
- ▶ Discussions with key foreign stakeholders have revealed that there is a perception of the region as being high risk and that securing relationships will become more challenging. There is also the challenge of adequate return for carrying the compliance risks that some of our smaller banks pose
- ▶ Out of 22 respondents to CAB's survey, 77% are dependent on one correspondent in particular, thus highlighting the vulnerability of the Region

Summary of Reports Reaching the CAB

- ▶ On 17th June 2015, the European Union released an “Action Plan for Fair and Efficient Corporate Taxation in the EU” by Commission which included 15 Caribbean countries in a “black list” of non-cooperative jurisdictions;
- ▶ CAB objected through a Release dated June 24, 2015
- ▶ In response, the EU later clarified that despite the publication, a final decision on countries that should be on the “black list” had not been made;
- ▶ In its objection, CAB warned that such a Release may serve to exacerbate the perception of our region as a high risk area and consequently, negatively impact the Risk Rating profile of financial institutions by correspondent banks.

Summary of Reports Reaching the CAB

- ▶ Note that the OECD and the Global Forum on Tax Transparency and Exchange of Tax Information, also in response, confirmed:
- ▶ “the only agreeable assessment of countries as regards their cooperation is made by the Global Forum and that a number of countries identified in the EU exercise are either fully or largely compliant and have committed to AEOI (Automatic Exchange of Information), sometimes even as early adopters”.

Summary of Reports Reaching the CAB

- ▶ CAB therefore called upon the EU to carefully review the criteria used by its member states to assess and determine the countries that are non-compliant in tax matters. Additionally, it strongly recommended greater collaboration between the EU, the OECD and the Global Forum on Transparency and Exchange of Information for Tax Purposes before “Black List” reports are issued.

Country Experiences

- ▶ The Central Bank of Barbados undertook a Caribbean Project on De-Risking involving a survey of individual country experiences and by December 2015 documented the following:
- ▶ Jamaica's Money Service Businesses (MSBs/cambios) have been affected as a leading local bank no longer accepts foreign instruments and remittances from some MSBs
- ▶ Bahamas, Cayman Islands and Turks and Caicos have lost their intensive business (money transfers)
- ▶ In Haiti, all 7 local banks have experienced terminations or restrictions in service

Country Experiences

- ▶ Belize's largest local bank, after termination have explored the possibility of having the Central Bank assist with foreign payments. However, the problem of 'nesting' was cited by the correspondent bank, resulting in customer migration;
- ▶ The Canadian Office of Supervision of Financial Institutions has mandated its correspondent banks operating in Barbados and the Eastern Caribbean Currency Union (ECCU) to know their customers' customers;
- ▶ Correspondent banks for International Business Companies (IBCs) in the Eastern Caribbean have closed business lines and terminated or placed onerous restrictions on accounts.

Illustration of the Problem

- ▶ On April 23, 2015, the Central Bank of Belize issued a Press Release entitled Foreign Correspondent Banking Relationships, the first paragraph of which is reproduced below:
- ▶ “Several large American and European banks have recently decided to cut ties with select institutions in small developing countries, a decision that appears to be correlated with the imposition of heavy regulatory fines for infractions associated with the recent global financial crisis and violations of geo-political embargoes. The new strategy of these institutions involves a reduction in the scope of global operations to minimize the probability of incurring further sanctions and fines, a process known as "de-risking". This is the context within which Belize Bank Limited and Belize Bank International Limited are losing foreign correspondent banking relationships.....”

Response of International Bodies

- ▶ Consequent upon several approaches made by Caribbean Ministers at various fora, including Spring and Annual Meetings of the WB and IMF, the Financial Stability Board requested the WB to undertake a survey to gather systematic data as to the scale, scope and nature of the changing trends in CBRs to establish whether the anecdotal and limited publicly available data reflect a global trend, relatively isolated instances or are not borne out by more comprehensive data.

Major Findings of the WB November 2015 Report

- ▶ Roughly half the banking authorities and slightly more local/regional banks indicated a decline in CBRs. For large international banks the figures are significantly higher at 75%;
- ▶ The Caribbean seems to be the region most severely affected;
- ▶ The United States is most often mentioned as being home to correspondent banks that are withdrawing from foreign CBRs;
- ▶ The products and services identified as being most affected by the withdrawal of correspondent banking relationships are: check clearing, clearing and settlement, cash-management services, international wire transfers and for banking authorities and local/regional banks also trade finance.

Major Findings of the WB November 2015 Report

- ▶ In terms of client segments most significantly impacted, over 69% of the banking authorities responding to the survey indicated that:
- ▶ money transfer operators and other remittance companies are most impacted, followed by small and medium domestic banks (44%) and small and medium exporters (26%).
- ▶ The drivers of the decline in foreign CBRs can be divided into two groups: one category of causes that are more business related, explaining the decision to terminate a foreign CBR in purely economic terms, and another category of causes more regulatory and risk related

Assessment of Caribbean by Global Forum

- ▶ According to the Tax Transparency Report 2015 published by Global Forum on Tax Transparency and Exchange of Information for Tax Purposes, of the 17 Caribbean jurisdictions that have undergone both Phase 1 and Phase 2 Peer Reviews:
- ▶ 11 are rated as Largely Compliant; and
- ▶ 6 are rated as Partially Compliant.

Advocacy by CARICOM

- ▶ At the conclusion of the 27th Intersessional Meeting of the Conference of Heads of Government of CARICOM in Placencia, Belize, Heads on 17th February 2016:
- ▶ agreed to the appointment of a Committee of Ministers of Finance on Correspondent Banking, chaired by Antigua and Barbuda's Prime Minister and Minister of Finance Hon. Gaston Browne. This group will be charged with the responsibility to represent the interest of the Region in addressing the issue, including an approach to the United Nations and the World Trade Organization, as well as the United States Congress, to create greater international awareness of the challenge confronting the Community.



THANK YOU!