

Concept Note: First G-24/AFI Policymakers' Roundtable on Financial Inclusion at the IMF and World Bank Annual Meetings, 7 October 2015 (18:00 - 20:00), Lima, Peru

1. The G-24/AFI Policymakers' Roundtable, is held each year on the sidelines of the IMF & World Bank Spring Meetings, is now in its seventh year. This meeting provides a high-level platform for engaging developing and emerging country policymakers in discussions on globally relevant financial inclusion policy issues. For the first time in 2015, G-24 and AFI will additionally host a special Roundtable at the Annual Meetings of the IMF & World Bank, hosted this year in Lima.
2. The theme of the meeting will be **“Stemming the Tide of De-Risking through Innovative Technology & Partnerships”**. The issue of “De-Risking” was raised as a key concern of AFI members in the paper “Potential Impacts of Global Standards on National Financial Inclusion Policies”, prepared under the leadership of the AFI Global Standards Sub-Committee and presented to a meeting of the Heads of global standard setting bodies (SSBs) convened by H.M. Queen Maxima and Stefan Ingves, Chairman of the Basel Committee on Banking Supervision (BCBS). The issue of de-risking featured prominently on the agenda of the Financial Action Task Force (FATF) Plenary meeting in October 2014, and has been an important focus of the work of the G20 Global Partnership for Financial Inclusion (GPII) as well as other international organizations and partners.
3. Amongst AFI members the topic has been at the forefront of discussions at the 7th Annual G24/AFI Roundtable at the Spring Meetings in April 2015¹, the work of the Global Standards Proportionality Working Group (GSPWG), and at the Global Symposium on Proportionality in Practice co-hosted by Bank Negara Malaysia, AFI and the Toronto Center in May 2015. The Global Symposium concluded with publication of the “KL Resolution on Proportionality in Practice” which highlighted concerns that *“the acceleration of de-risking by international banks could have potentially harmful consequences for financial inclusion”*, and called for *“practical solutions...through dialogue between the public and private sectors and between regulators”*.²
4. According to a discussion paper prepared for the FATF plenary meeting, entitled “De-risking: Global Impact and Unintended Consequences for Exclusion and Stability”, de-risking can be defined as “any instances in which banks have adopted increasingly stringent financial crime-related policies to reduce their exposure to potential money laundering, terrorist financing, corruption and sanction risk. More specifically, it relates to the strategies adopted by banks to reduce or lower their risk exposure”. The paper goes on to cite that de-risking can manifest itself in a number of ways with withdrawal from a specific sector or customer group at the farthest end of the de-risking spectrum and more frequent responses including:
 - Banks limiting their exposure to certain high risk customer sector, e.g. money service businesses;
 - Taking steps to avoid an overconcentration to a particular type of risk, e.g. correspondent banking;

¹ <http://blogs.afi-global.org/2015/04/30/g-24afi-policymakers-discuss-financial-inclusion-and-global-standards-opportunities-and-risks/>

² <http://www.afi-global.org/library/publications/kl-resolution-proportionality-practice>

- Limiting the types of services offered to higher risk relationships, e.g. cash clearing activity, bank notes etc.;
 - Curtailing certain products and services in and for certain countries and customer sectors.³
5. The drivers of de-risking are complex and appear to involve a convergence of issues around the risk tolerance of banks to AML/CFT in the face of a tightening regulatory environment and perceived higher costs of compliance. However, it is widely recognized that the trend towards de-risking could add to overall AML/CFT risk rather than mitigate it since banks' operations are likely to be filled by unregulated service providers. It is also clear that Financial inclusion can be adversely impacted by international banks either exiting vulnerable countries perceived as having high money laundering risk, or banks' exiting relationships with perceived high-risk sectors such as money transfer operators (MTOs) without case-by-case risk assessment.
6. A number of G-24 and AFI members have been significantly impacted by such decisions, particularly in the case of MTO account closures those for whom remittances represent a high proportion of GDP and/or those with a limited range of remittance options available through formal channels. In some reported cases, banks have exited relationships with all MTOs in the country, in spite of the fact that these countries would not normally be regarded as a significant AML/CFT risk and the fact that MTOs in these countries are regulated by the central banks and must comply with AML/CFT requirements. In such cases, the impact of de-risking and risk aversion regarding MTOs could have a major impact on remittances for the poor. At the same time the effect of De-Risking on correspondent banking arrangements in some countries has resulted in the withdrawal of banking services from areas that are otherwise unserved by financial institutions.⁴
7. Just as the causes of de-risking are complex, the search for solutions to “stem the tide” will also be challenging and will clearly require dialogue between developing and developed country regulators, banks and other private sector players, as well as the global standard setting bodies. As Dr. Jihad Al-Wazir, Governor of the Palestine Monetary Authority summarized the situation at the 7th Annual G24/AFI Policymakers Roundtable:
- “An engagement is needed at the legal level to find the reasonable ground where you can maintain vigilance for AML/CFT but at the same time don't reach an unintended consequence of the systemic risks that you face”.⁵
8. Finding potential solutions is likely to require, but may not be limited to:
- Improved data to allow accurate analysis of the extent of de-risking across different jurisdictions and different sectors;
 - Providing reassurances to banks on the AML/CFT regimes that are in place in developing countries that have been affected by de-risking;
 - Dialogue at the national level between regulators and banks to ensure withdrawal decisions are taken on a case-by-case basis rather than wholesale withdrawal from entire sectors; and

³ See “De-risking: Global Impact and Unintended Consequences for Exclusion and Stability”, October 2014

⁴ See AFI Paper: “Potential Impacts of Global Standards on National Financial Inclusion Policies” prepared for October 2014 Basel meeting of the Heads of SSBs.

⁵ <http://www.afi-global.org/news/2015/4/30/g-24afi-policymakers-discuss-financial-inclusion-and-global-standards-opportunities>

- Dialogue at the international level amongst regulators, global standard setters, the private sector and international organizations on the impact of the overall AML/CFT environment on de-risking decisions by banks.
9. This year's G-24/AFI Roundtable will focus on deepening discussion of practical solutions to the challenge of de-risking, and will proceed in three parts:
- First, the initial findings will be presented of a qualitative study conducted with G24 and AFI members on the impact of de-risking in their jurisdictions and their views on practical solutions.
 - Second, international partners actively working on the issue including the World Bank Group, Financial Stability Board, Commonwealth and Institute for International Finance will be invited to share updates on their work and provide their own views on the necessary next steps;
 - Third, a panel discussion will highlight the achievements of a number of G-24 and AFI members in developing robust and proportionate AML/CFT regimes which effectively balance financial integrity concerns with active promotion of financial inclusion.
10. Following these sessions of the Roundtable, an open moderated final discussion will focus on agreement of clear next steps for developing a G24-AFI viewpoint on De-Risking within the framework of the AFI Peer Learning Program with SSBs.
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