The Impact of De-Risking on Caribbean Economies and Long-Term Policy Options for The Region

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Abstract

The loss of corresponding banking relationships (CBRs), referred to as "de-risking", is an evolving issue that has widely affected banks within the Caribbean. The de-risking episode can have adverse consequences for the region, since it has the potential to reduce the size of the banking sector, as firms will be forced to either close or streamline operations due to the loss of specific business lines. Therefore, the study found that a coordinated regional approach is pivotal to addressing the loss of CBRs. The study also identified several other appropriate policy actions that can be undertaken by the region to stem the declining CBRs.

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KEYWORDS: Caribbean, correspondent banking, Regulations, AML/CFT, Remittances

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[1] The views expressed in this paper are those of the authors and do not necessarily represent The Central Bank of The Bahamas. This paper should be considered a work in progress and as such the authors would welcome any comments on the written text.

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Section I: Introduction

Correspondent banking relations are a main characteristic of a well functioning international financial system. These arrangements involves one bank, referred to as the correspondent, providing deposit and other related services to another bank, called the respondent. However, increasing pressure on international banks to raise their capital, streamline their business models and re-evaluate their risk exposure have led to global banks severing their relationship with less profitable and riskier activities. This purposeful termination of financial relationships with groups of customers or lines of business considered high risk under Bank Secrecy Act/Anti Money Laundering (BSA/AML) legislation is referred to as “de-risking”. It is the avenue used by global banks to lower the overall risk exposure of their asset portfolio in response to tighter regulatory standards imposed by national and international regulatory bodies. The strategies taken by these global banks include terminations of correspondent banking relationships (CBRs) in the form of complete exit from the business, ceasing to offer the service in either some sectors, some countries or certain regions, termination on a client by client basis and modifying and restricting the terms of services that they continue to provide.

The de-risking phenomenon, which is a direct response to regulatory compliance factors and the state of the global economic environment, has significantly impacted the Caribbean. Banks across the region have lost CBRs, adversely impacting some services and sectors. A World Bank Survey (2015) noted that the Caribbean is one of the regions most affected by declining CBRs. This paper examines the impact of the loss of CBRs in the Caribbean and discusses some appropriate policy recommendations. Following the introduction, section II analyses the genesis of de-risking, while section III looks at the potential impact of de-risking. Section IV examines the documented evidence of the loss of CBRs in specific countries in the region, while section V explores some relevant policy options for the Caribbean. The paper concludes with a summary of the overall findings.

Section II: Genesis and Reasons for De-Risking

Correspondent banking relationships (CBRs) are critical for enabling a wide range of key economic and financial transactions and services in Caribbean countries, including the execution of third-party payment, such as remittances, credit card transactions, international trade in goods

& services and transfers of deposits from one location to another. It is also pivotal to banks' own cash clearing, liquidity management and short-term borrowing or investment needs. These correspondent banks accept deposits from other banks, referred to as respondent banks, which in turn write checks or make wire payments against these deposits to settle international or other payments. The bilateral arrangements between banks, often involves a reciprocal cross-border relationship in multiple currencies.

Therefore, financial institutions, acting as correspondents, rely on the respondent bank to put robust anti-money launder (AML)/combating the financing of terrorist (CFT)/Know Your Customer (KYC) measures in place to ensure that their clients are transacting legal business. Hence, correspondent banks have to guard against being used as channels for illicit activities, thus the main risks are of a regulatory and compliance nature. If there are any violations and based on the severity, banks face sanctions of varying degrees, some civil in nature and others criminal, where bank officers can even be imprisoned. There is also the possibility of damage to banks reputation from having violations made public.

Notwithstanding, the genesis of de-risking stems from the Financial Action Task Force's (FATF) requirements for financial institutions to identify, assess and understand their money laundering and terrorist financing risk and implement appropriate measures. However, according to Worrell, et.al (2017), there is a lack of clarity about the implementation of FATF guidelines, specifically as it relates to correspondent banks knowing their customers' customers (KYCC). Moreover, there is no international uniformity of the sanctions regime and the designation of 'terrorist' nations, organizations or supporters varies by country. It is therefore the resulting uncertainty that has led to many international banks business decision to exit countries or terminate business lines where the potential fines for which they are subject outweighed the potential for profits, although the probability of such fines is low because compliance systems are robust.

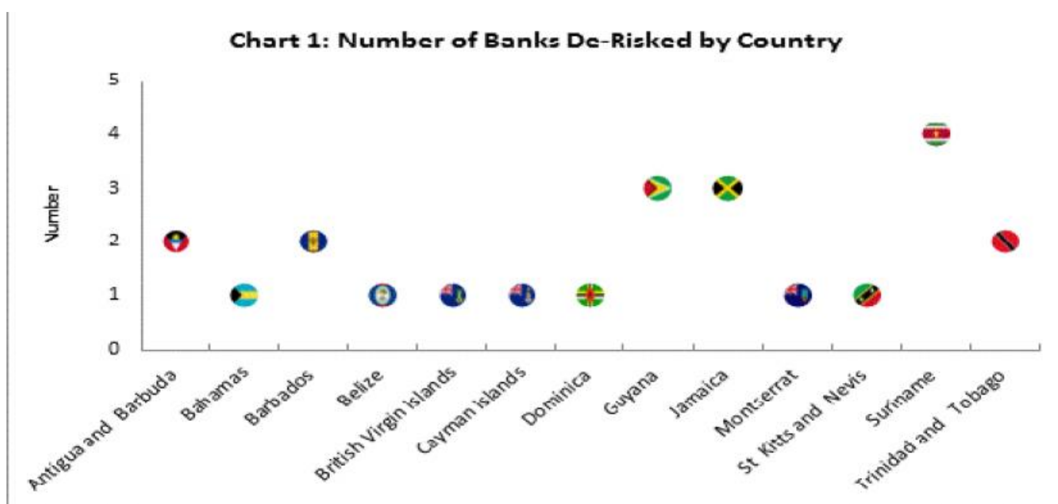
The burden of compliance, as well as sanctions and Foreign Account Tax Compliance Act (FATCA) is very costly and according to banks and other regulators, has gone beyond the point where it can detect behavior which violates the rule. The more stringent AML/CFT initiatives to deter the use of financial systems for criminal purposes have added significant compliance costs. According to the Financial Crime Enforcement Network (FinCEN) 2015, the average unit compliance cost is now so high that it is not profitable to continue to pursue certain types of

business. It is therefore, the risk vis-à-vis the reward that has led to the loss of correspondent banking relationships (de-risking).

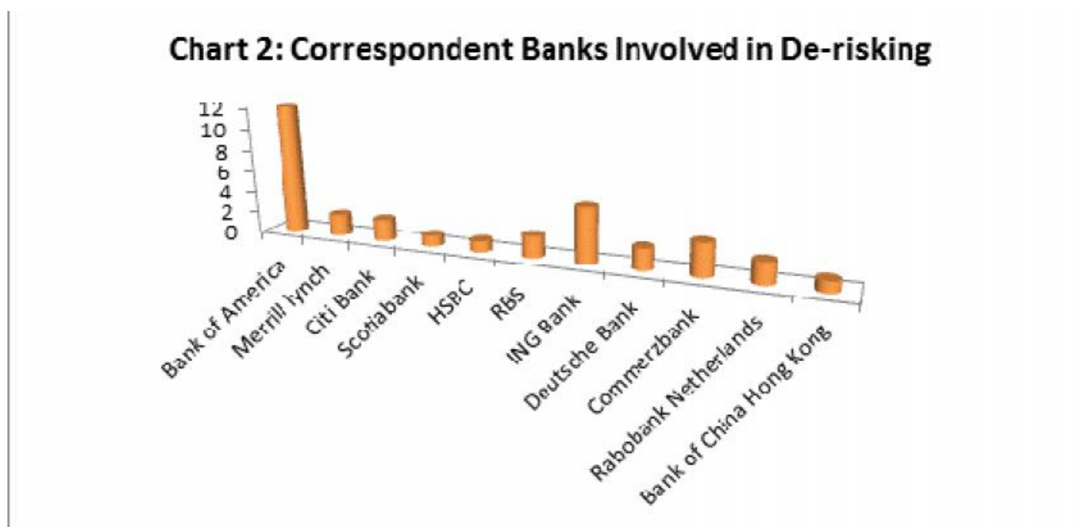
A World Bank survey (2015) cited some of the causes for the termination or restriction of foreign correspondent banking relationship as lack of profitability of certain services/products, decrease risk appetite of correspondent, changes to legal, regulartory or supervisory requirements in correspodent jurisdiciton that have implications for maintaining CBRs and concerns about AML/CFT risk. Overall, the de-risking strategy impact has decimated certain classes of business, clientele and jurisdictions throughout the Caribbean.

According to a report published by the World Bank in November 2015, the Caribbean is one of the regions most affected by declining corresponding banking relationships. Several financial institutions in the region have lost important correspondent relationships, thereby shrinking the pool of institutions available to facilitate international transactions, and thus increasing the level of vulnerability of our financial institutions (see Charts 1 & 2).

Numerous reasons were cited by correspondent banks for severing relationships with respondent banks. Among these were that they do not generate sufficient volumes to overcome compliance costs; they are located in jurisdictions perceived as too risky; they provide payment services to customers in which the necessary information for an adequate risk assessment is not available and they offer products or services or have customers that pose a higher risk for AML/CFT and are therefore more difficult to manage. (BIS, 2016:2).



Source: Caribbean Association of Banks, 2016:7



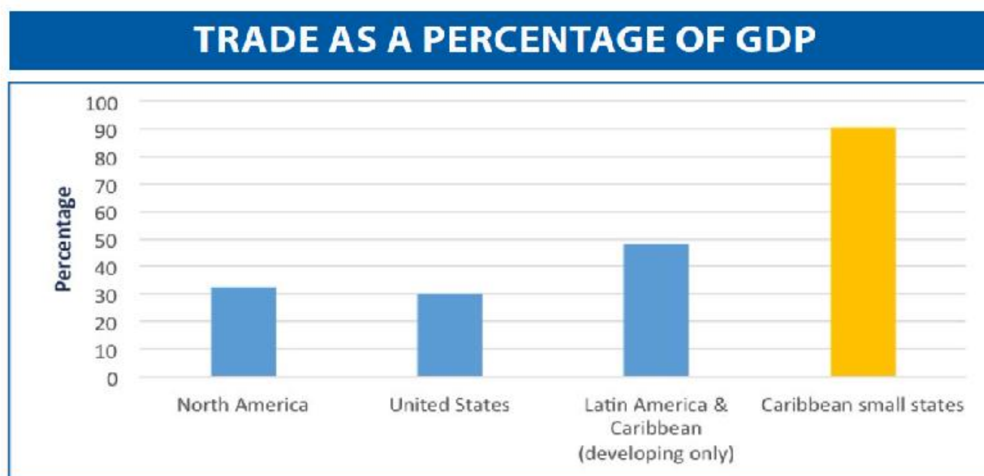
Source: Caribbean Association of Banks, 2016:7

Section III: Potential Impact of De-Risking

Although there is no true consensus on the definition of de-risking, given that it is an evolving issue, what is evident is that there is a taxonomy of channels through which the loss of CBRs can affect the Caribbean economies. De-risking has the potential to obstruct trade finance, adversely impacting imports and exports, which are necessary for nations to secure goods and services. Chart 3 reiterates the importance of imports and exports to the trade dependent Caribbean economies. In the Caribbean all countries are heavily dependent on international trade, including tourism and services, which requires CBRs to conduct cross-border transactions. In a study by Alleyne, et.al (2017) the authors noted that the average openness ratio for the Caribbean was approximately 95% of GDP over 2011-2015, which exceeded the world average of 91% of GDP. It therefore signals that a rise in the cost of making payments or disruptions to flow of transmitting or receiving international payments would adversely affect economic activity.

With regard to remittances, there is a high degree of dependency on these flows for some countries in the region. For example, countries such as Haiti, Jamaica and Guyana remittances account for more than 12% of GDP. Hence, a decline in these countries capacity to obtain inflows would seriously undermine their economies. The curtailment in access to money transfer services or heightened transfer costs could result in remittances to informal channels, thereby making them difficult to monitor.

Chart 3



Source: Caribbean Policy Research Institute, 2016

Moreover, the Caribbean is heavily dependent on foreign direct investment (FDI). As a result, the loss of CBRs has the potential to constraint these investment inflows and make it difficult for the repatriation of reinvested earnings. In a study by Alleyne, et.al. (2017), the authors found that the average of financial account balances in the region was almost 9% of GDP over the years 2011-2015.

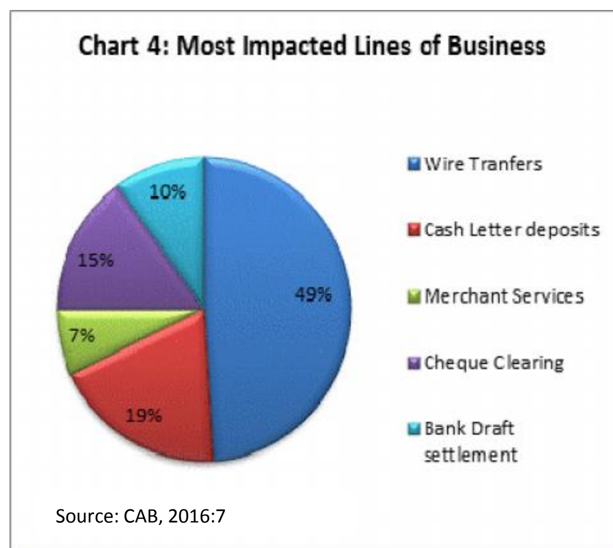
For the offshore banking sector, it is an important contributor to employment and Government revenue for countries in the Caribbean. Several countries in the region have a large offshore sector, which comprised of offshore banks, other financial institutions and international business companies that provide a variety of services. Despite the "firewall" that countries implement to separate the domestic and offshore sectors in an effort to limit the risk to the domestic economies, the offshore banks are still an important source of external financing for some domestic economies.

Therefore, the key finding is that the loss of CBRs can disrupt access to international clearing facilities for routine payments that are essential for the effective functioning of economies. Loss of correspondent banking can affect international trade, remittance transactions and credit card payments. In addition, it can limit FDI in the region, undermine financial inclusion and increase poverty to the unbanked through a decrease in remittances. According to a study conducted by

IMF staff (2017), loss of correspondent bank may also stifle banks' ability to obtain foreign currency loans for trade finance or to service foreign currency debt. There is also the spillover effect to other sectors and the loss of future business opportunities, as investors will be unwilling to establish operations in jurisdictions where corresponding banking relationships either do not exist or are limited. Overall, it has the potential to reduce the size of the banking sector, as firms will be forced to either close or streamline operations due to the loss of business lines.

Section IV: Countries in the Region Affected by De-risking

The evidence pertaining to the loss of CBRs is primarily based on surveys of banks. Specifically, a survey conducted by the Caribbean Association of Banks (CAB) in 2016 revealed that banks in 12 countries in the Caribbean have experienced loss of correspondent banking. These countries included The Bahamas, Belize, Guyana, Jamaica, Suriname, Trinidad & Tobago and countries within the Eastern Caribbean. The survey results also indicated that money transfer businesses were mostly impacted, at 49%, followed by cash letter deposits (19%), cheque clearing (15%), bank draft settlement (10%) and merchant services (9%) (see Chart 4).



For the Caribbean, the fragile economy of ***Belize*** was hardest hit by the loss of CBRs, with global banks severing approximately 22 correspondent banking relationships in nine (9) banks from a total of 31 accounts in the banking sector over the 2015-2016 period. Specifically, in 2015 Bank of America informed Bank of Belize that it will be cancelling its corresponding banking operations—the country's largest bank, responsible for half of the nation's banking sector—following an unfavorable risk audit. Of the five (5) domestic banks in Belize, only two smaller banks, Scotiabank and Atlantic—would retain correspondent relationships with other top-tier banks for US dollar transactions, including wire transfers, bank drafts, letters of credit, bank guarantees, and credit card transactions. According to Moody's, these significant

disruptions could impact Belize's tourism, trade and cross-border investment flows. The Moody's report further noted that de-risking has the potential to hurt the Government finances and derail efforts to narrow the fiscal deficit, adding that it could, if the shock is substantial enough, sink Belize into deeper debt. It additionally warned that "…stress on the financial system could lead to a substantial increase in cash-based transactions and an expansion of the informal sector, which would weigh on tax revenues and fiscal, performance." The Moody's report stated that, "The Central Bank of Belize estimates that roughly 60% of total tourist expenditures involve credit card transactions that have to be settled by correspondent banks". In light of the Bank of America's withdrawal, the Central Bank of Belize has offered limited assistance for the close out of customers account and local banks were successful in setting up US credit card settlement services with a small New York-based bank. However, this relationship could be rescinded owing to pressures from US-based regulators.

The decision to terminate CBRs with Belize stemmed from concerns related to the enforcement of global regulatory standards, such as AML/CFT and prudential regulations. Therefore, there is certainly a need to strengthen the effectiveness of the AML/CFT framework and increase entity transparency. In addition, stronger focus should be on risk-based supervision and the imposition of corrective actions and sanction on banks where necessary.

The effects of terminations of correspondent banking relationships have been pronounced in ***Jamaica***, where remittances are a major source of foreign exchange. The number of money transfer businesses and foreign exchange traders has declined as a result of the severance of correspondent banking relationships. The deterioration of CBRs in Jamaica became prominent in 2014, where approximately fourteen (14) cambios closed, stemming from commercial bank's decision to close the accounts of cambio operators when confronted with anti-money laundering pressure. Cambio services accounted for 46% of all sales in the financial intermediation market. During 2014-2016 de-risking trends continued to surface, despite Jamaica's Mutual Evaluation Reports with the FATF, which indicated that Jamaica remain positive and has never been sanctioned as an AML/CFT high risk jurisdiction nor did they display any sign of weakness to supervisory or regulatory framework. In 2015, Bank of America announced that it would discontinue accepting cash emanating from cambio operations. In addition, Cayman National Bank decided to remove their business and engage less in remittance business.

In general, financial institutions from the United States, Canada and the United Kingdom have severed relations in Jamaica or in some cases have imposed restrictions in light of heightened scrutiny and consequent unwillingness to incur the increase risk of conducting operations in Jamaica. De-risking trends persisted into 2016 when Barclays Bank announced the termination of international payment services with a building society.

As it pertains to ***Barbados***, the Canadian owned banks loss CBRs due to the rigidity of the regulations of the Canadian Office of Supervision of Financial Institutions. The effects of de-risking have been concentrated among Canadian Banks because the regulatory body required Canadian banks who are currently involved in opening accounts for Barbados IBC's to surrender information on the IBC[2] customers. Consequently, some IBCs in Barbados have chosen to relocate to other jurisdictions. Further, the loss of correspondent banking relationship has led one bank to close an entire line of business in Barbados, the Caribbean and Latin America, which it previously had as a key plank for its global expansion. At end-2016, eight (8) domestic financial institutions have had their accounts terminated primarily by Canadian and United States correspondent banks, as well as a few banks from the Netherlands, United Kingdom and Germany. Apart from terminations, other forms of de-risking have included restrictions in operations, lengthening of wire transfer time periods due to verification processes and decreased ease of opening accounts.

In ***The Bahamas***, the financial sector depends heavily on the international correspondent banking system in order to maintain multi-currency payment and settlements to and from other international financial centers. The country is hosts to a number of large global banks with diverse business models, offering overnight sweep account services, private banking/wealth management and investment banking. However, over the past year there has been increase inspection by international banks to lessen the possibility of money laundering, terrorism financing and other criminal activities. The largest fallout from the withdrawal of CBRs has occurred in the offshore sector, which has diverse business models and includes wealth management services, investment banking and other high value added services. Evidence from a survey conducted by the Central Bank of the Bahamas in 2015 indicated that the risk appetites

[2] IBCs form an integral part of the Barbadian financial sector and economy, providing the government with a valuable source of revenue diversification.

for correspondent banking have declined. The survey further revealed that at least 2 domestic commercial banks and 4 international banks have been affected by the loss of a correspondent banking relationship. Overall the survey results indicated that several financial intuitions have been subject to heightened due diligence by their correspondent banks, while preserving their relationships. However, due to the nature of their operations and on-boarding requirements all institutions were able to find replacement correspondent banking relationships.

Further, results from a second survey conducted in November, 2016 revealed that 14 licensees have been impacted by de-risking. Of those impacted 3 were commercial banks, 1 a non-bank money transmission service provider and 10 international banks. The survey also showed that of the 14 institutions impacted by the loss of correspondent banking relationship, 6 were standalone banks, 7 were subsidiaries of parent bank and 1 was a non-bank money transmission service provider. In addition, where corresponding banking relationships were maintained, some respondents noted that additional AML/CFT requirements were imposed by their correspondent banker. However, licensees indicated that the enhanced AML/CFT requirements have not significantly impacted their operations. Nonetheless, the findings indicated that banks within this jurisdiction generally rely on a small number of correspondent banking relationships and further losses in relationships could potentially pose a significant threat to the jurisdiction.

The main factor cited for the withdrawal of CBRs was AML/CFT concerns. The 2007 Caribbean Financial Action Task Force (CFATF) assessment identified strategic deficiencies in the AML/CFT framework. However, although progress was made in addressing these deficiencies, it is still the view that more effort should be placed on strengthening implementation of the AMF/CFT framework in line with the recommendations emerging the CFATF evaluation against the 2012 FATF standards. Another contributing factor is heightened risk aversion by foreign financial institutions. Evidence suggested that some international correspondent banks are skeptical in providing services to domestic banks that do business with money transfer businesses and “web shops”, which are deemed high risk. Developments also appear to be driven by high compliance costs and associated risk outweighing the revenue generated from these businesses, thereby making it difficult for smaller local institutions with fewer international transactions to maintain their CBRs.

In the ***Eastern Caribbean Currency Union*** (ECCU)[3] correspondent banking relationships exist mainly with international banks in the United States, Canada, United Kingdom and Europe. However, concerns about the perceived risk associated with the offshore sector led to the termination of CBRs with ECCU countries. Terminations and restrictions were felt primarily within the International Business Companies (IBC) sector from the US and Canadian banks. Specifically, one correspondent bank relinquished all accounts involved with downstream correspondent or their party intermediary activity and closed all the accounts of several legal professionals and local charities. In addition, a bank closed its entire operation in the Eastern Caribbean, while another bank, after trying to establish CBR in Canada for its offshore subsidiary, was told that Canadian banks were not establishing any new banking relationships in the Caribbean and that local banks should desist from conducting business with money services businesses (MSB) or foreign exchange trading companies (Cambios). Further, another commercial bank had its CBR with Bank of America (BOA), its only correspondent bank, terminated. The reason cited by BOA for the termination was that the bank no longer aligned with its current business strategy. As a result, many local banks sought to establish alternative relationships with other jurisdictions and banks, albeit at a higher cost of doing business and greater compliance.

In a study by Alleyne, et.al. (2017), the authors noted that in order for the ECCU to address the concerns of higher perceived risk, both the ECCB and the Financial Services Regulatory Authority have to continue to work on a timely and effective implementation of risk-based supervision and the Basel II framework. At the same time efforts should be sustained in addressing the remaining deficiencies in meeting the standards of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

De-risking behaviour has caused the termination of two (2) CBRs in ***Trinidad & Tobago***. According to the Central Bank of Trinidad & Tobago, the private members clubs (PMCs) have essentially become "unbanked", with the closure of numerous accounts over the period 2014 and 2015. Specific to PMCs, which accounts for in excess of 60 registered entities and provide recreational gaming in casinos, video games, and entertainment via bars and pubs, some banks

[3] The Eastern Caribbean Currency Union members are Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St Kitts & Nevis, St Lucia and St Vincent & The Grenadines.

deployed a risk based approach and have restricted international wire transfers to high risk countries. There has also been heightened pressure on money or value transfer services (MVTS) in conducting foreign exchange transactions and in some instances they have been forced to seek alternative banking relationships.

Guyana was also impacted by de-risking. However, unlike its peers, the country was not as severely impacted by CBRs termination, owing to the fact that close to half of correspondent banking providers originate from the Caribbean. Two correspondent banking relationships were terminated over 2014-2016. One bank experienced termination, as well as restrictions of 50% of its accounts, and the number of CBRs-related transactions declining by almost 52%, while the total value of these transactions were reduced by about 27%.

Table 1:
Terminations of Correspondent Bank Relationship By Country

Country	Number of Terminations
Suriname	4
Guyana	3
Jamaica	3
Antigua & Barbuda	2
Trinidad & Tobago	2
Barbados	2
The Bahamas	1
Belize	1
BVI	1
Cayman Islands	1
Dominica	1
St. Kitts & Nevis	1

Source: Caribbean Association of Banks, 2016 Survey

Therefore, it is evident that the impact of de-risking in Caribbean has been extensive, affecting all classes of clients, businesses and jurisdictions, although the revenue loss has not been estimated. Nevertheless, the Caribbean Association of Banks indicated that in cases where relationships with correspondent banks were terminated, alternative relationships were established to facilitate the service gaps. However, the problem lies in the availability of all services, as cheque clearing and cash letter deposits facilities are more difficult to find. Reports indicated that a large number of new businesses has been turned away and diverted to industrial countries where the information and compliance practices are less stringent.

Section V: Recommended Policy Approach to De-risking

For the Caribbean, the key to combating de-risking is implementation of measures that will transition the region from a perceived high-risk to a medium-risk jurisdiction. Indeed, in the Caribbean there has been some success at the political level, as well as with the group of regional central bank Governors and senior bank supervisors, in engaging in broad stakeholder dialogue with the Regional Consultative Group of the Financial Stability Board, United States Regulators—including the Treasury and Justice Department—Canadian and US correspondent banks. These discussions have all assisted in promoting a common understanding of the challenges which correspondent banks face, in terms of the scrutiny received from their own regulators. Nevertheless, it is necessary to have these ongoing discussions so as to eliminate the exaggerated perceptions about existing weakness in the regional regulatory and compliance framework.

A coordinated regional approach is needed in addressing the loss of CBRs (de-risking). The first step is for the engagement of discussions that focuses on the complexity of regulations and risk exposures which are contributing to biases against specific business types. An in-depth understanding of the major causes of the changes in CBRs is necessary and appropriate polices need to be developed at a regional level. Evidence showed that the Caribbean economies have been compliant with the 2002 Financial Action Task Force (FATF) standards and are working towards full implementation of FATF revised standards in 2012, which focus on a more risk-based approach to assessing the effectiveness of AML/CFT framework. However, a request should be made to international regulators such of the Caribbean Financial Action Task Force (CFATF), the Organization for Economic Co-operation and Development (OECD), the Financial Stability Board (FSB) and the International Monetary Fund (IMF) to identify any areas for further improvement in region's AML/CFT systems. In instances where deficiencies are identified, expeditious remedial steps should be undertaken. Such a move would help to stem and even reverse the trend of correspondent bank networks being terminated.

The region has to tackle the misperceptions about regulatory quality and transparency of the regime. Regional economies, therefore, should be encouraged to strengthen their AML/CFT legislation, as well as their administrative procedures to combat the issue of de-risking. It is

necessary for the AML/CFT systems to be raised to uniformly higher standards in the region, since any deficiencies in any single jurisdiction could be generalized as being associated with the jurisdiction as a group. The jurisdiction has to be able to demonstrate that they do not pose unmanageable risks to the correspondent banking landscape.

Other reputation-enhancing initiatives can be garnered from how we leverage strengths already identified in our AML/CFT regime stemming from the latest mutual evaluation that was conducted by the Caribbean Financial Action Task Force (CFATF). Hence, this is a good yardstick against which further improvements can be made. For example, the Bahamas' national risk assessment (NRA) on money laundering and terrorist financing exposure will dove-tail with the regional peer assessment. The NRA will unveil a sector-by-sector approach to improving the country's AML/CFT system and underscore the work streams of each of the regulatory and enforcement agencies. The said approach can be adopted by other countries in the region. In addition, The Bahamas, via the Central Bank is also devoting fulltime resources in the AML/CFT supervision, with the creation of special Analytics Unit within the Bank Supervision Unit to monitor more effectively what supervised institutions are doing on a regular basis.

Greater participation in the global Society for Worldwide Interbank Financial Telecommunication (SWIFT) Know-Your-Customer (KYC) registry can also assist in providing members with a platform to host baseline KYC documentation, while granting other members access, thereby reducing compliance costs and concerns about the legitimacy of cross-border payments. It would be beneficial to establish guidelines that would increase the amount of mandatory information contained in the SWIFT messages. Hence, the SWIFT KYC registry can provide a single, secure platform for exchanging KYC data with cross-border correspondents. A longer-term solution would be the development of KYC utilities that permit respondent banks to store and update their customer information, which could be easily accessed by correspondent banks.

Further, the Caribbean should encourage respondent banks to develop special protocols for what is termed higher-risk, but legitimate activities, such as remittances, which fall into this category, but have an overall positive social and economic impact in the region. However, the correspondent banks and the respondent banks should agree on the criteria for these special

protocols. Nevertheless, whatever actions are undertaken they should not exclude legitimate, but risky business, thereby, hampering financial inclusion.

Another policy option relates to information sharing and communication between respondent and correspondent banks. Respondent banks in the Caribbean need to heighten their communication, requiring correspondent banks to clarify their positon on their risk tolerance policies and their reason for terminating specific CBRs. Such an option would allow the banks in the region to better explain the steps they have taken to address the drivers of CBR withdrawals. By allowing global correspondent banks to understand the respondent banks clients' customer due diligence protocols and offer guidance on what changes they require, is likely to assist in correspondent banks maintaining a strong presence in the region.

It is evident that the Caribbean community is fully committed to the international process of financial reforms. The Caribbean Development Bank (CDB) is launching a programme that would assist commercial banks to raise their capacity to address the growing requirements related to customer due diligence and transaction monitoring. Nonetheless, they are circumstances that have the potential to threaten the stability of the financial system. Therefore, in the interim, some proactive responses for banks which have been affected by the loss of correspondent banking relationships include the re-routing of transactions through a regional institution or diversifying currency transactions.

Nevertheless, it is safe to say that over the years the Caribbean has demonstrated efforts aimed at the effective implementation of international AML/CFT standards, and underscored the transparency of the regulatory systems. For instance, significant progress was made in the area of tax information exchange, with a number of regional economies signing several agreements. The issue of tax transparency is particularly relevant for the countries in the region that have offshore financial service centers. Several Caribbean countries have agreed to a multilateral agreement on tax information sharing and have committed to the Common Reporting Standard (CRS), which standardizes the financial account information to be shared and introduces an automatic exchange of information. Notwithstanding, the region has to work on closing any gaps in the risk and compliance systems.

Section VI: Conclusion

The continuous global de-risking has undesirably affected certain classes of business, customers, and jurisdictions in the Caribbean. As global banks continued to reassess their individual business models, many have made the decision to terminate CBRs with Caribbean banks. The common thread in international banks withdrawing from the region has been deficiencies in the AML/CFT framework, which led to risk perceptions about the region, especially as it pertains to the offshore sector. Although Caribbean banking regulators have taken several steps to addressing deficiencies identified, it is therefore pivotal for authorities to be proactive in their approach to strengthening their AML/CFT framework in compliance with recommendations emerging from the CFATF evaluation against the 2012 FATF standards. It is necessary for the region to strengthen the effectiveness of the regulatory framework, in addition to heightening entity transparency, especially in the offshore sector.

Further, as the correspondent banking landscape continues to be impacted by episodes of terminations, it is incumbent that the authorities maintain dialogue with the Financial Stability Board (FSB), the World Bank, the International Monetary Fund and the US Treasury. Caribbean authorities have to continue to make the region’s voice heard in global fora, since the further loss of CBRs could adversely impact the economy via a reduction in international trade, remittance and investment inflows.

Nevertheless, enhanced international coordination and action by the respondent and correspondent banks are required to address loss of CBRs. Caribbean banks need to continue to proactively communicate with correspondent banks, assuring them of the adequacy of their own customer due diligence, transaction monitoring and AML/CFT frameworks, while, correspondent banks need to be more forthcoming with respondent banks on their requirements regarding their banking business transactions.

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