MEETING OF THE COMMITTEE OF MINISTERS OF FINANCE

ON CORRESPONDENT BANKING

15 February, 2016 - Placencia, Belize

Considerations by the Caribbean Association of Banks Inc. (CAB) for the way forward in addressing the implications of the de-risking strategies being pursued by the global banks for the banking sector in CARICOM States.

1. INTRODUCTION

The Caribbean Association of Banks (CAB) has been very concerned about the threat of loss of correspondent banking relationships for indigenous banks in the region as early as 2008 when some correspondent banks ceased to provide certain services to its members. Since then, the CAB has been advocating on this issue through the development of The CAB's AML/CTF Principles 2009; presentations at Conferences (Regional/International) to raise awareness; press releases; and letters to key stakeholders etc. The CAB wishes to emphasise that correspondent banking relationships are critical for the enabling of key economic and financial transactions, such as, remittances, foreign direct investments and international trade in goods and services, which constitute some of the main drivers for sustaining the region's growth and development. Consequently, the loss of these vital relationships can render our region unbankable and ultimately destabilize all sectors of our economies. Given the gravity of this situation, the CAB wishes to particularly note the urgency of implementing recommendations coming out of this meeting and they should receive the highest priority and commitment from stakeholders.

2. SUGGESTIONS ON THE WAY FORWARD

The CAB proposes the following for consideration in a regional implementation plan:

(i) CAB recognizes that Basel III requirements for liquidity risk management are also a main contributor to the decision by Correspondent Banks to de-risk. All deposits classified under Correspondence Banking relationship appear to attract an outflow factor of 100%. This affects the buffer of high quality of liquid assets that a Correspondent Bank is required to hold. A Correspondent Banks is required to hold 4 times more liquid assets to support the deposits against stress out flows.

This makes it very uneconomical for Correspondent Bank and ultimately attracts lower returns and higher costs. They will also lose the value of deposits held by FIs thus decreasing the return on risk-weighted assets and increase rates to acquire the increased levels of funding.

There is need for the Advocacy Committee or the committee of Central Banks to respectfully request that the committee reviews its definition of Correspondent Banking activities as the activities of the foreign Banks are very operational in nature and hardly likely at any time to see 100% out flow of funds. Therefore a low risk out flow factor should be applied into those funds.

While approximately 75% of the fines are related to sanctions and terrorist financing, I think the new risk requirements in Basel III that are impacting the foreign Correspondent Banks, will by association, flow down to Foreign Financial Institutions.

The lobbying effort should not just be to US Regulators but also to the Basel Committee as it relates to Basel III. The implementation date is scheduled for 2016 hence the heightened action by the Correspondent Banks.

(ii) That CAB is represented on all high-level mission to advocate on the Correspondent Banking issue as the Association comprise of fifty two (52) banks in the region and Fifteen (15) regional and international service providers.

(iii) Seek assistance from donor agencies (IMF, World Bank, IDB, CDB, etc.) to help small banks automate their compliance systems as these are very costly. Many small banks for which the costs to comply continues to be prohibitive.

(iv) Establish a Caribbean bank or a company in the US that can facilitate the region's payment flows or Tier 2 or Tier 3 Bank. (The necessary research to be undertaken will consider the feasibility of this initiative and also take into consideration that this same bank would be subjected to US Laws.)

(v) Engage experts to explore alternative payment options such as digital cash, block chain technology etc.

(vi) Develop harmonised legislation with respect to AML/CTF, Secrecy laws, Credit Bureau etc. to provide the capacity to facilitate new initiatives in the financial sector.

(vii) Develop and implement a Marketing/Communications plan to rebrand the image of the region from that of "High Risk/Tax Haven" to a more positive one.
   a) Publish our reviews by CFATF/Website note sufficient/training symposium, etc.

b) Examine all new legislation/regulation/prudential guidelines e.g. Basel III to identify the areas that could have a negative impact on small banks using services of Correspondent Banks.

As a region, we must recognize and accept that we have a very poor track record of harmonizing legislation to strengthen our own legal framework and implement policy. Some improvement is required in that regard.

To date, some jurisdictions have not passed their FATCA Legislation which continues to put the financial system of the country at great risk.

(viii) Procure the services of a team of experts to assist the region in sourcing alternate providers of correspondent banking services.

(ix) We strongly suggest that a delegation comprising CARICOM Heads, PMs, meet with the Big 8 Banks, FATF, IMF, World Bank, Bank of International Supervision, BCBS, IDB, OSFI, CDB and Central Bank Governors and OAS, to get to the core of that matter and agree on a common solution.

The meeting was also made aware that de-risking affects remittances and will certainly jeopardise the achievement of the millennium Development Goal 10.c – "By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent".

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