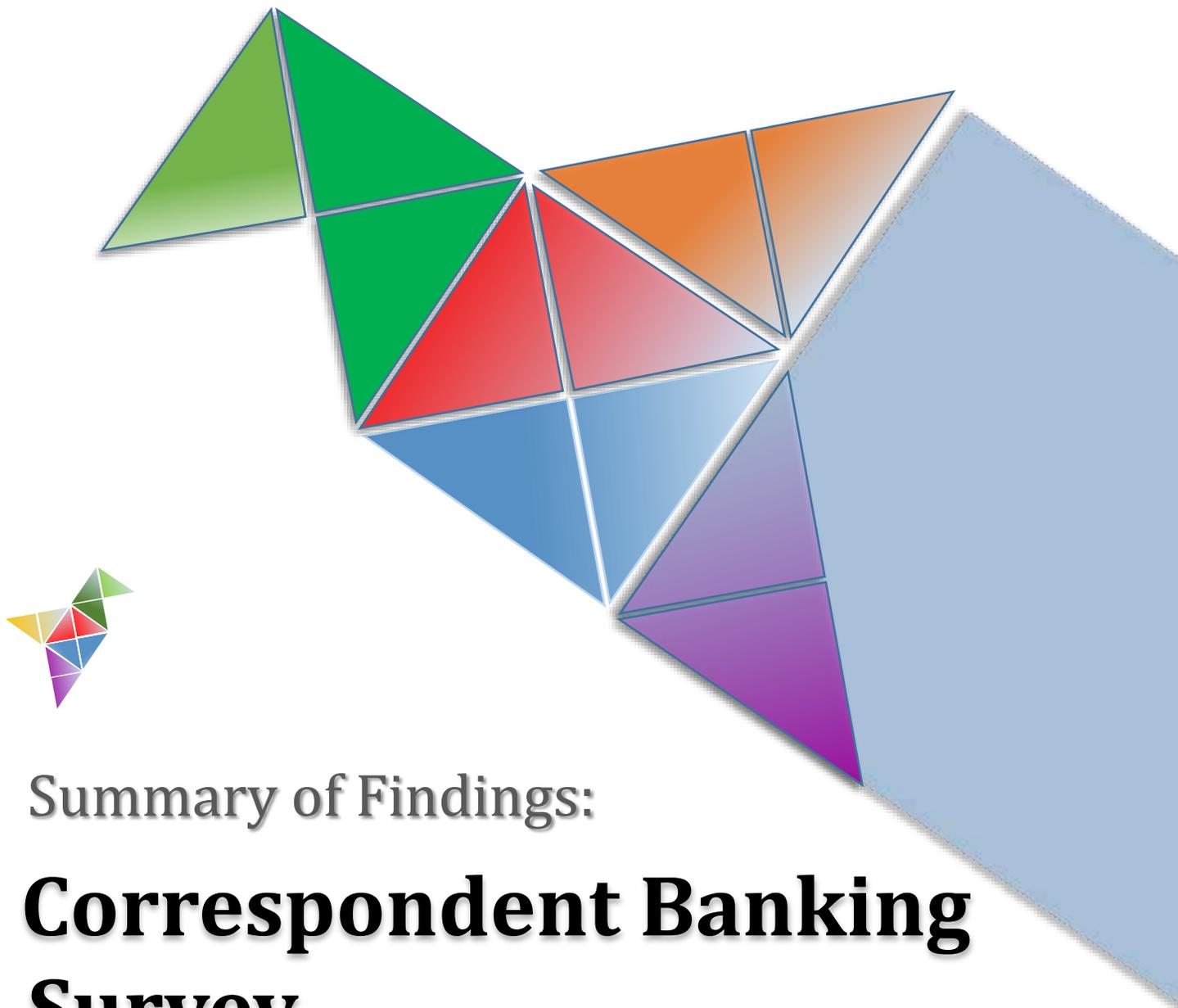




Caribbean Association of Banks Inc.

October 2016

Revised



Summary of Findings:

Correspondent Banking Survey

Caribbean Association of Banks

Correspondent Banking Survey in Summary

The Caribbean Association of Banks (CAB) Secretariat conducted a survey on the impact of the action of correspondent banks on its members on 25th August, 2016 to assess the scope of de-risking among members. There were thirty eight (38) respondents representing ninety seven (97) percent of the thirty nine (39) members included in the sample.

The results indicated that fifty five (55) percent of respondents had lost at least one Correspondent Banking Relationship (CBR) while forty five (45) percent of respondents reported having no loss. The major loss came from relationships with Bank of America. However other USA banks were also involved in the de-risking exercise. To eliminate the heterogeneity caused by of Bank of America in the sample, weights were added. When further analysis was done the data indicated that Europe as a region has been the most aggressive in de-risking Caribbean banks.

When measuring the incidence of de-risking vis-à-vis the number of members present in each country, it was found that the most affected countries were Suriname followed by Guyana and Jamaica.

The most severely impacted services were: wire transfers, foreign cheque clearing and cash letter deposits. However, the majority of relationships which have been terminated are from US banks.

The CAB has been actively pursuing its advocacy efforts and will continue to collaborate with the relevant stakeholders to ensure that the issue remains on all relevant agendas. It should be mentioned that on the 5th October, 2016 the OCC (the Office of the Comptroller of the Currency) published guidelines for American banks to follow when deciding to terminate correspondent banking relationships¹.

¹ The Office of the Comptroller of the Currency. (2016, October 5). OCC Bulletin 2016-32. Retrieved from The Office of the Comptroller of the Currency, US Department of Treasury: <https://www.occ.gov/news-issuances/bulletins/2016/bulletin-2016-32.html>

Introduction

In response to the evolving compliance landscape and the nature of de-risking, CAB conducted a Correspondent Banking Survey on 25th August 2016 among a sample of its General Members. The survey was done for the purpose of providing greater vision on the scope of de-risking on members.

The information obtained from the survey will complement and provide support to the CAB's continued advocacy efforts.

Over twenty (20) percent of members indicated that they received notification from their correspondent banks, stating that their relationships would be terminated by November 2016. However, CAB has collaborated with the correspondent banks to reconsider their decision and allow for extensions of the deadline, in order to enable the affected members to obtain alternative relationships. In the interim, the CAB will continue to monitor the situation to provide all relevant support to members.

As regional stakeholders continue to conduct research to gain a clearer understanding of the de-risking phenomenon, reliable and timely data is necessary. CAB hopes that the data gathered in this survey will provide researchers, presenters and discussants with valuable data with which to make their interventions on the issue.

The CAB would like to thank all those respondents who participated in this survey and look forward to continued support.

Participants

The Correspondent Banking Survey was conducted among thirty nine (39) recipients drawn from the CAB's General Members. The respondents were chosen based on their experience with access to correspondent banking services, where members did not use the service they were not included in the survey. A

response rate of ninety seven (97) percent was achieved CAB has received responses from thirty eight (38) of the thirty nine (39) recipients.

Correspondent Banking Survey – Main Findings

The correspondent banking survey targeted member banks from eighteen member (18) territories. One of the primary reasons for conducting the survey was to ascertain the number of members who had lost correspondent banking relationships and the number relationships that were lost. Figure one below summarizes the general results:

Figure 1: Summary of Members who lost CBRs

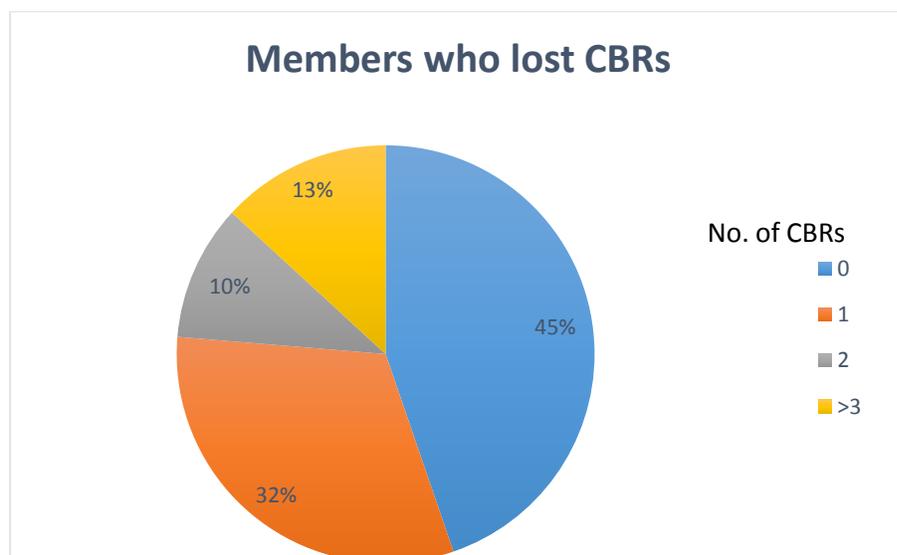


Figure 1 shows that forty five (45) percent of the respondents did not lose any correspondent banking relationships. Thirty two (32) percent of the respondents indicate that they had lost only one correspondent relationship, which in the majority of cases was by Bank of America. Ten (10) percent and thirteen (13) percent of respondents lost two (2) and 'more than three' (3) correspondents respectively. In three (3) cases members who relied on one correspondent bank to provide services in different markets (for example EU and US) had all of their accounts terminated by that bank. Twenty three (23) percent of

respondents have received notifications from their correspondent banks that they would be terminating their accounts in the last quarter of 2016. Some banks had received notifications as early as July but most were able to negotiate extensions to November. Those who were unable to secure an extension, have had to obtain new relationships. CAB has facilitated contact between some members and foreign banks who are willing to offer CBRs.

Many foreign banks have been involved in terminating CBRs with some being more aggressive than others. We present our findings on the banks which have been most aggressive in terminating CBRs in the region. Figure 2 below summarizes the data on correspondent banks which have been terminating relationships in the region:

Figure 2: Summary of Banks involved in de-risking

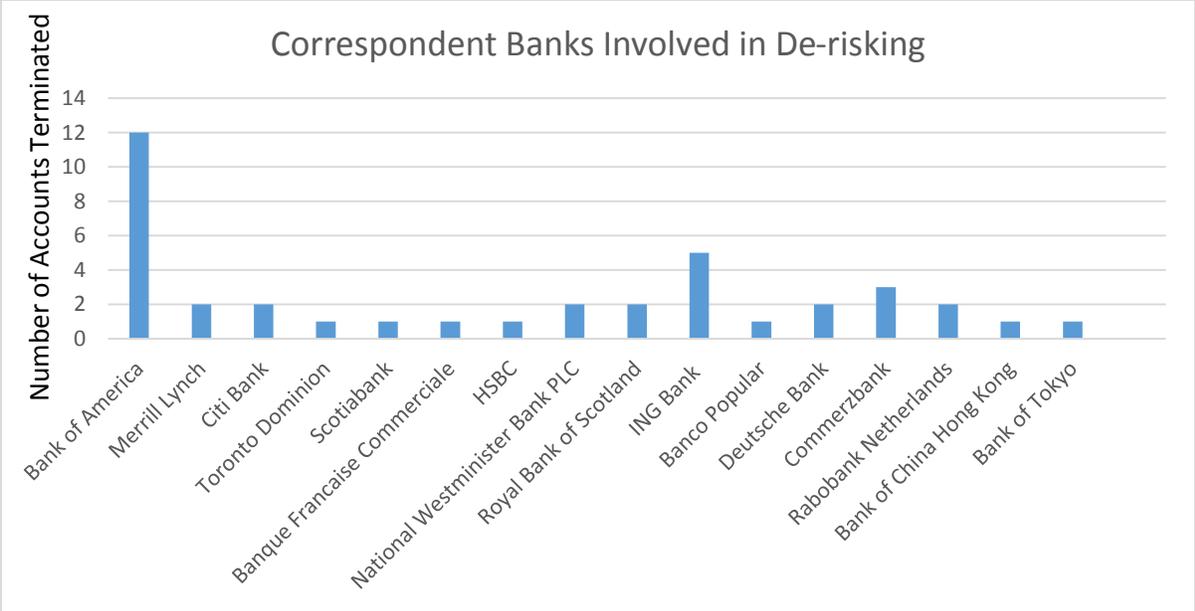


Figure 2 indicates that there are at least sixteen (16) international banks have been de-risking regional banks. The most aggressive has been Bank of America followed by banks in Europe led by ING Bank and Commerzbank. The Bank of America has served as the sole US correspondent bank for six (6) regional

financial institutions before the de-risking began. Some of those relations have since been severed, leaving the banks without access to the US payment and clearing system.

In undertaking de-risking, some correspondent banks opted to sever some services rather than undertaking wholesale termination of relationships. Some of the services that have been selectively severed include cheque clearing services. In cases where the relationship was terminated in its entirety, all members have been able to find alternative relationships. However, a few members have been unable to restore certain lines of business, such as: cheque clearing and cash letter deposits, from their new relationships.

Figure 3 below shows a summary of the most impacted lines of business among respondents:

Figure 3: Impacted lines of Business

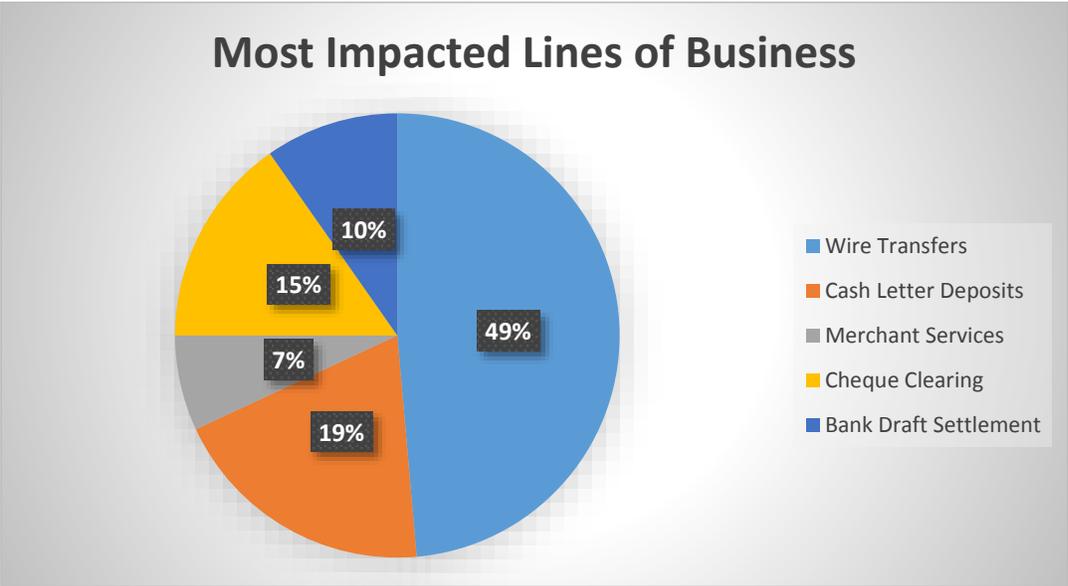
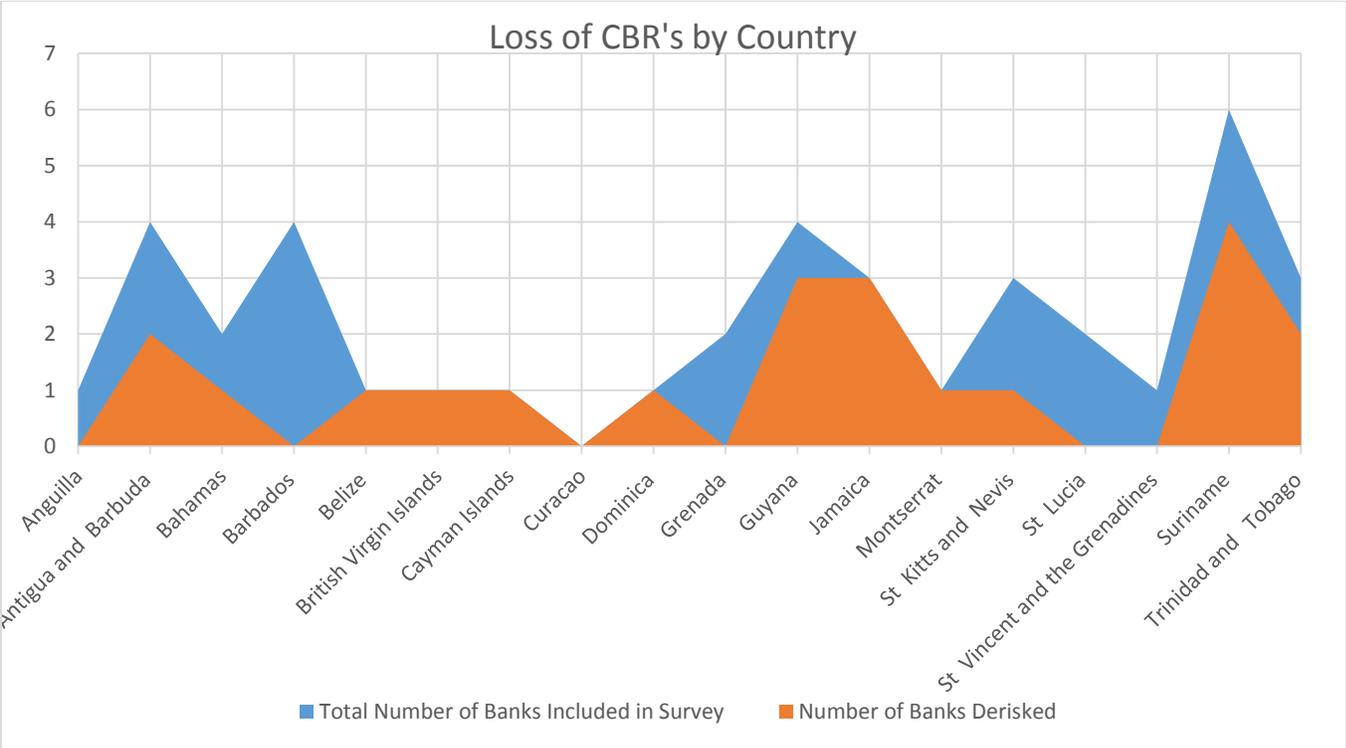


Figure 3 indicates that wire transfers were the most impacted line of business followed by cheque clearing and cash letter deposits. Members have been able to restore wire transfer services through alternative agreements but as mentioned above other lines of business are more difficult to reestablish.

Each country in the region has been affected differently by de-risking. Below we present data on the total number of respondents per country vis-à-vis the number of banks which were de-risked. This can indicate which particular jurisdictions which may be vulnerable. Figure 4 below shows the loss of CBRs by country:

Figure 4: Incidence of de-risking by Country



The area in blue shows the total number of respondents by country. The area in orange represents the number of respondents which have experienced losses in correspondent banking relationships. The results show that Suriname was the most affect country with four (4) out of the six (6) member banks being de-risked. Suriname was followed by Guyana and Jamaica with both having three (3) member banks which have been de-risked.

Both Suriname and Guyana have been identified by the FATF as having key AML/CTF deficiencies. According to the FATF (July 2016 Follow up Report), Guyana has made significant strides in rectifying the

deficiencies and has been commended for those effort. Guyana will no longer be subject to FATF Monitoring from 21st October, 2016.

The following graph shows the foreign countries whose financial institutions have been terminating CBRs.

Figure 5 below summarizes our main findings in the form of a Radar Graph:

Figure 5: Origin of de-risking by Country

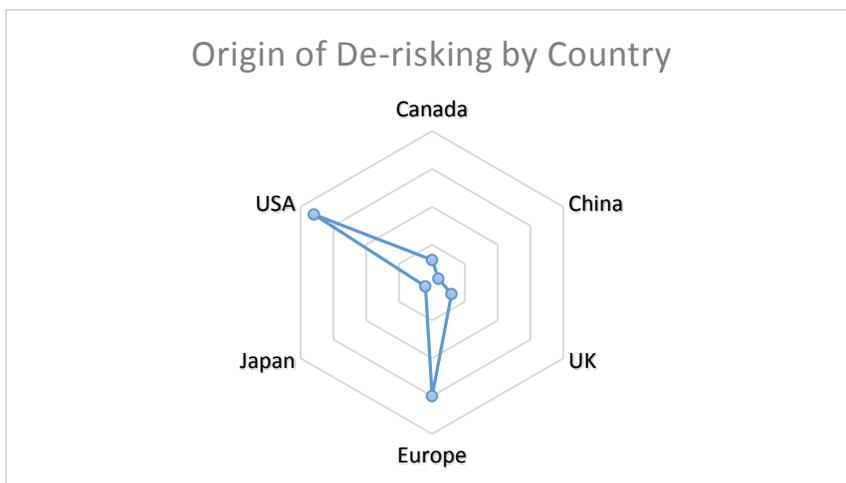


Figure 5 indicates that the USA has been the most aggressive in terminating CBRs in the Caribbean Region, followed by Europe. However, it must be noted that Bank of America has been the most aggressive in de-risking by a vast margin and it is a significant outlier in the data. Consequently, this may cause a measure of bias thereby not accurately capturing the reality under study, that is, which *jurisdiction* has been most aggressive. By assigning each bank in the USA an equal weight, the data may be more representative of the reality. If we adjust for Bank of America, we are presented with Figure 6 below:

Figure 6: Origin of de-risking by Country (Adjusted for Bank of America)

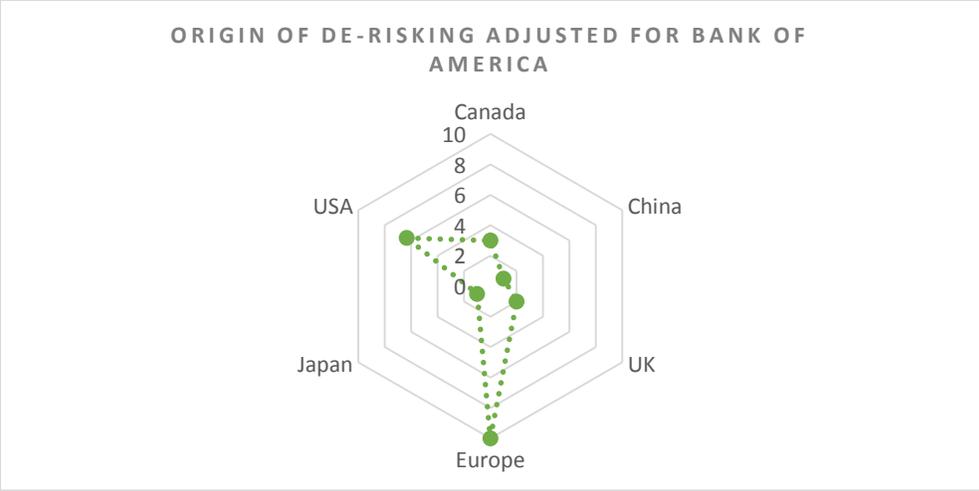


Figure 6 shows the data adjusted for Bank of America. From this graph it can be seen that Europe becomes the most aggressive region involved in de-risking in the Caribbean if adjusted for the effects of Bank of America on the data.

Conclusion

The results from this survey have provided greater clarity with regard to the scope of de-risking among members, the most aggressive entities involved in de-risking and the impacted lines of business. The results have indicated that fifty five (55) percent of members have lost at least one CBR while forty five (45) percent of respondents reported having no loss. This rate of incidence warrants the involvement of the CAB in advocating for some relief for those affected. CAB will continue its advocacy efforts to keep this issue at the forefront of both the regional and international agenda.

For the 45% that have reported no loss in relationship the onus is on them to continue to provide services to customers that can withstand international scrutiny. The results also calls for a refocus of attention away from a purely USA advocacy to one aimed at Europe where the bulk of the banks engaged in de-risking originate. It also points to the need to develop new products and services and reduce the reliance on the traditional products and services which have come under increasing scrutiny.

CAB will continue to monitor the issue and provide timely updates on any significant developments related to this issue.