June 2018

CEOs FORUM REPORT

2018

Caribbean Association of Banks Inc.

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Report on the

Caribbean Association of Banks Inc. 3rd CEO's Forum

2nd June 2018

Participants: There were forty-three (43) participants including CEO's, Directors and Compliance Professionals from regional banks, together with Tax and Financial Crimes Experts and Regulators.

Location: Intercontinental Hotel, Miami, Florida.

Date: June 2nd, 2018

Mary Popo, General Manager, Caribbean Association of Banks ("CAB"):

The General Manager welcomed everyone to the third CEOs Forum and introduced the Chairperson of the CAB to officially welcome the participants.

Joanna Charles, Chairperson, Caribbean Association of Banks:

The Chairperson welcomed everyone to the third CEOs Forum and took the opportunity to thank them for making this event possible. She encouraged the participants to use this Forum as an avenue to share best practices, formulate strategies to deal with issues, and to learn from and support each other.

She stated that it was opportune for regional leaders to reengineer their business models; to promote diversity within their organizations; and to tap into the boundless and unique talents of their people. Additionally, institutions would need to **adapt, invest and innovate** to reap the numerous benefits of disruptive technology.

The Chair encouraged CEOs to rally their local Bankers Associations to advocate at the governmental level, so that they may better influence the implementation and execution of the necessary mechanisms to bring Caribbean countries into full compliance with international standards.

Lastly, she spoke on the correspondent banking issue and the need to continue to explore sustainable solutions.

Rolf Phillips, Chairman of the Strategic Planning, Advocacy and Public Relations Committee

Mr. Phillips thanked the participants for their support and highlighted the importance of the forum. His presentation addressed the following areas:

- Correspondent Banking update: Nine (9) members currently have no U.S. correspondent banking relationship and seventeen had only one. Therefore, some members are still in a vulnerable position, having to depend on only one relationship. Crown Agents Bank continues to work with members to fill the gap. The meeting recognised and applauded their support. Correspondent banking fees and compliance fees increased by 39 per cent and 66 per cent respectively from 2014 to 2017.
- Advocacy: CAB continues to speak for the sector (Meetings with International Monetary Fund (IMF), Presentation at the Caribbean American Legislative Forum in DC, on H.R. 4939: Effects on Trade and Financial Services in the Caribbean and the issuance of several press releases); CAB also represents the regional financial sector on regional bodies such as the Caribbean Court of Justice Trust Fund and CARIFORUM. CAB engages in research such as the joint development of a correspondent banking paper titled "CBR Withdrawals: Understanding the Uneven occurrence across the Caribbean", and the planned development of a regional payments system paper.
- Strategic Partnerships and Relationships: CAB has deepened the relationship with regional Bankers Associations (8 MOUs signed thus far). CAB has also established formal collaboration with the Eastern Caribbean Central Bank and has written to the Committee of Central Bank Governors (CCBG) in that regard. CAB is now a Correspondent Member of The Latin American Banking Federation (FELABAN).
- Enhancing Public Image: To better guide its advocacy efforts and to deepen engagement with the public the CAB rebranded itself; is developing financial literacy and Public engagement initiatives; and beginning to leverage the use of social media.

Richard Sammy, Chairman of the Membership & Stakeholder Committee

Mr. Sammy made a presentation on some of CAB's strategic initiatives which were relevant to Membership. Some of the areas were:

- Expanding the Membership Base: We welcomed two new associate members, PROVEN Investments and Euro Exim Bank, both from St. Lucia. We are continuing in our efforts to have the International banks on board and have started discussions with Scotiabank and CIBC/FCIB. We are visiting the territories to meet with potential members and are focusing on Bahamas, Haiti and Suriname for 2018.
- Regional Certification: CAB and the regional financial services institutes are in the process of developing a regional banker's Associateship/Fellowship certification. The formation of a new entity called the Caribbean Association of Financial Institutes (CAFI) has been proposed.
- Education and Training: The CAB has facilitated several webinars and workshops; promoted the use of its online Credit skills academy in collaboration with Keith Checkley and Associates; awarded three members with scholarships to pursue BSc in Banking and collaborated with Chartered Banker/Bangor University to provide two MBA scholarships; Signed MOU with Florida Bankers Association to offer CAB members banking related courses at discounted rates.

- Other Initiatives: CAB's Group Insurance scheme in collaboration with Howden Insurance brokers continues to provide great value to the members and a natural disaster risk component is being developed; The CAB magazine will be revamped; membership plaques and a Hall of Fame is being developed.

Panel: Dealing with Factors which influence the Region's High-Risk Perception.

The panelists thanked the CAB for the invitation to speak at such an important event. They recommended that the CAB intensifies its advocacy efforts globally to address this perception: The following points were highlighted from the discussions:

1. Regional reputation has been battered by three sets of blacklisting (the EU, FATF and the OECD). Blacklisting now comes with the added pressures of the loss of correspondent banking relationships and its impact on the region;
2. The region's AML/CFT reputation stems from the FATF Mutual Evaluation process and the Mutual Evaluation Report which comes from this process. It is necessary for the region to take these evaluations seriously as this directly affects the region's ability to attract foreign direct investment;
3. National Risk Assessments (NRA) based on international standards were being enforced upon the Region under a "one-size-fits-all" approach. This has been changed in the 4th Round with the use of a Risk-based Approach. Countries would determine what the risks are in their particular jurisdiction and implement recommendations to address these risks based on what they perceive as needing the most critical attention;
4. Regional jurisdictions need to make the necessary commitments to the development of their NRAs. Similarly, the lack of data is critical for the development of NRA is a serious impediment to the successful and expeditious completion of the assessment;
5. The necessary resources need to be devoted to the development of the NRAs. The responsibility should not be solely on the government, but the private sector also needs to get involved to ensure that these assessments are completed.
   The private sector should aim to be involved in every stage of the document's development. A critical area in which the private sector can contribute to this process is through the collection and provision of data. Regional banks hold large amounts of data manually. By improving data collection methods, banks can feed data to the NRA in a more efficient manner;
6. While NRAs are important, the Region's compliance with international tax standards is similarly important. The paper on CBR Withdrawals published by IDB and co-authored by CAB mentioned that the average risk score for the region is 6.01 and while this score was not bad, the issue is one of "perception versus reality". The Region is being viewed as high risk irrespective of this score;
7. The OECD enacted the Base Erosion and Profit Shifting (BEPS) measures out of which came the four minimum standards. Each country does a self-review questionnaire on regimes which have been identified as being potentially harmful. This questionnaire then goes to the Forum for Harmful Tax Practices where it is reviewed on a peer to peer basis. If the regime contains harmful characteristics which puts it "in-scope" they are invited to amend or abolish

the regime. If the commitment is not taken to abolish the regime then the regime (not the country) is blacklisted. The EU, unlike the OECD, blacklists the country and not the regime.

8. The sanctions from the EU blacklist are generally more severe than OECD blacklisting. There are examples in the region where placement on the EU blacklist resulted in the termination of funding from the EU.
9. The International Narcotics Control Strategy Report (INCSR) is not a sanction or a blacklist. It is also not politically motivated.
10. Due to the nature of the INCSR report, a country may have a robust AML/CFT regime and yet still be listed in the report. Factors which may contribute to the inclusion on the INCSR report include the countries financial sector's complexity, its geographical location and vulnerability to money laundering.
11. The Report is compiled by U.S. Embassies or U.S. attachés who are usually in close communication with FIAs and other public institutions in the countries. Areas for collaboration with the private sector exists and civil society's views are welcome.
12. The U.S. engages the Regional financial sector in different ways. Delegations are sent to FATF and CFATF to aid in funding FATF-Style Regional Bodies (FSRBs) either through their operations or technical assistance. Capacity building funding in the Caribbean is also provided through training for prosecutors, law enforcement, asset recovery etc.
13. It is the intention to have a comprehensive INCSR report which is representative of the truth. While having the INCSR report reviewed by other parties, such as foreign governmental organs, prior to publication for feedback has been discussed, the legal and logistical challenges have made this unfeasible.

Presentation: Strengthening Financial Transparency: Rebuilding Trust in Correspondent Banking in the Caribbean (Project Update)

The main points of this presentation were:

1. Perception is very difficult to get rid of and it will take many years of constant effort to change a perception. So, it was decided that most of the effort would be in aiding the countries in preparing National Risk Assessments and National Action Plans.
2. The project leverages on the strengths of the project partners (ASBA, MIF, CDB) to help produce systemic changes in the industry via training, technology, practices' standardization, and information-sharing among stakeholders.
3. The second area of the project is to increase the technical capacity of financial institutions to conduct customer due diligence and adopt AML/CFT best supervisory practices.
4. The third area is to improve public-private sector coordination to more effectively address de-risking and develop a mechanism for ongoing dialogue between the region's public and private sector and the international financial community.
5. The Preliminary results of the project are as follows:
    - Key Area 1:
        - NRAs developed; and
        - Beneficial Ownership Study published.
    - Key Area 2:
        - Training curricula for de-risking being developed; and

- Pilot Training held in March 2018 with 50 participants from 14 Caribbean countries.
- Key Area 3:
  - De-risking landing page under construction and;
  - Communication strategy under discussion.

Presentation: Prospects for blockchain-based settlement framework as an enhancement to the Caribbean Payments System.

Some of the main points of the presentation are:

1. In 2017 the Cryptocurrency markets experienced some great movements in the market and many FinTech companies have become very well capitalized. In the last 6-12 months, there has been some shifts in the regulatory environment and regulators are becoming more engaged.
   While it seems like digitized financial instruments are here to stay, the actual market adoption of blockchain technology is limited. Currently, the main use of blockchain is trading or speculating cryptocurrencies.
2. Regional securities exchanges are very tempting to new fintech firms as there are little regulatory barriers and the exchanges are very small. Polygon, for example, is looking to trade cryptocurrencies as securities on the Barbados Stock Exchange. Fintechs are competing with the role of financial intermediation, however, banks can leverage financial technology while offering a sense of legitimacy and trust that fintechs lack.
3. The ECCB is one of the leaders in the region regarding the FinTech industry. Anguilla has developed a Utility Token Act and Bermuda has developed a Virtual Currency Business Act.
4. A blockchain-based settlement network can offer tools to improve surveillance of transactions, which would enable better detection of illicit financial transfers and thereby decrease risk and associated compliance costs and offer banks in developing countries the opportunity to bypass correspondent banks altogether.
5. A Caribbean settlement token would have the following characteristics: permissioned distributed ledger operated by a consortium of banks; Electronic tokens are backed by claims against a basket of participating currencies; Banks trade tokens directly with each other, instead of sending hard currency through correspondent banks; Some aspects relating to privacy, liquidity saving mechanisms, finality, and legal recourse may need to be centralized.
6. There are benefits if a bank offers a cryptocurrency product. There is more trust for the customer if the bank holds their cryptocurrency for them. However, cryptocurrencies are very volatile, and it’s not wise for banks to hold large amounts on their books. Alternatively, they may hedge against the risk by utilizing futures.
7. There appears to be signs of a budding market for regional banks which may offer cryptocurrency exchange to remote software developers who get paid in cryptocurrency and have no avenue to convert the currency to fiat.

Presentation: Innovation in Financial Services

The main points from this presentation are:

1. A bank needs to consider many factors in its journey to become a digital business (customer centricity, personalization, cloud enabled, embedded analytics etc.)
2. Big Data: Big Data is a key competitive differentiator for a Bank in today's digital and open banking world. Banks need to collect and analyze big data faster, better and cheaper while forming meaningful patterns and associations and trends on customer behaviour. Big data will allow hyper-targeted marketing, personalized advice and fraud detection etc.
3. Artificial Intelligence: A.I. in banking can help organizations to increase efficiency and reduce costs by using features like robo-advisors, chatbots and digital engagements.
4. Cloud banking: 80% of fortunes 500 companies use the cloud from MS Office products, Skype, LinkedIn and Xbox.

5. To get the unbanked into the sector one must use efficiency and low-cost products. Utilizing the cloud may be the most viable option to keep cost as low as possible. Similarly, utilizing mobile devices may allow banks to reach persons in remote areas. In some countries, face recognition and fingerprints are used as proof of identity.

Panel Discussion: General Data Protection Regulation (GDPR)

The main points from this panel discussion are as follows:

1. All data processing by public authorities and organisations in the EU, or organisations outside Europe offering goods and services in an EU Member State are subject to GDPR. If the data processing is related to the offering of goods or services (with or without payment) to data subjects in the EU then GDPR applies. However, if the data is completely anonymized then GDPR does not apply.
2. GDPR is not new, it's just another risk model which brings privacy and cyber security together. There is no silver bullet for it, it is merely a way of thinking. GDPR is not a destination or a goal but rather an ongoing process that must be maintained going forward. There must be the obligation to continue ensuring confidentiality, integrity, resilience and availability of systems.
3. GDPR requirements must be implemented differently and may not all be applicable depending on your data processing activities. Also, GDPR compliance efforts should be based on specific business context, industry and risk profile.
4. Organizations must employ an interdisciplinary approach to GDPR, legal and IT departments should work together on GDPR to create a new "privacy team". Also, before implementing new systems the banks must now perform a Data Protection Impact Assessment to help identify and minimize the data protection risks of a project and to ensure that data integrity and compliance is maintained.

5. Systems also need to be regularly tested relative to GDPR. If these tests are not undertaken the institution becomes open to risks.
6. Banks need to ensure that customer consent is freely given, particularly in relation to services like online banking. The banks also need to keep a record of when and how consent was given.
7. Data taken from customers must be used for a legitimate purpose. If a consumer provides their email address to you for one purpose, to distribute that email or to use it for any other purpose without the customer's consent, constitutes a breach of GDPR.
8. Fees for breach: 2% of global turnover or 10 million euros, at the higher breach the fees are 4% of global turnover or 20 million euros.

CEO Roundtable Leadership agility in this fast-paced financial services sector.

One of the most difficult things for bankers to do is to place the customer at the center of the decision-making process. It is important for bankers to recognize that they are predominantly in the retail business and the customer experience is critical to the fulfilment of business objectives.

Leadership in financial institutions should be very fluid. Leadership is presently very complex, and one must constantly be willing to change and adapt to various situations and employ a multifaceted and multi-dimensional approach. Leaders should be proactive, protective of their companies and ensure that their organizations remain profitable.

Leader should believe in their mission and this should be demonstrated in their behaviours. Staff engagement is critical and feedback conversations should flow up and down.

Board members should be active, prepared, comfortable, participatory and always ready and willing to give their support to the leader. Board members should be exposed to developments in the industry not only at national but regional and international level, to better understand the challenges faced by the management team.

Succession planning is extremely important both at the management and at the Board level to ensure smooth continuity of the operations.

CEOs Forum Open Session.

In this session, CEOs exchanged ideas and best practices with their colleagues. Some of the main discussion questions and responses were as follows:

1. How *are CEOs protecting themselves given the myriad of changes in regulation?*
   - Every month ensure that the compliance manager reviews regulations and ensure that the organization is in compliance with these regulations. Smaller changes may creep up in ways which make the organization non-compliant.
2. *Working with the audit firms for IFRS 9 have been challenging as it concerns getting a response. What has been your experiences? Also, what are your experiences with the data requirements?*
   - We have had no significant issues with consultants. However, we are having challenges with the data due to data fragmentation and differentiation.
   - We have partnered with three other banks and approached the audit firms together.
3. *What are the implications of IFRS 9 to development bankers?*

- The most impactful component would be increased provisioning which could lead to losses.
- Governments may have to support through injection of added capital.

Actions going forward:

The following are some areas to be advanced:

- Collaboration among members is viewed to be of utmost necessity and CAB was encouraged to do more to facilitate this.
- The establishment of MOUs with national Bankers Associations was a positive step and CAB should continue to pursue this initiative as this would provide a stronger voice for advocacy.
- CAB is to encourage national BAs to get involved in their National Anti-Money Laundering Committees, NRA working groups and play a role in the provision of data for the US, INCSR report.
- A concerted effort needs to be made to analyze the details of the INCSR and identify key areas in which regional countries have improved their AML/CFT frameworks. By shifting the conversation away from the negative aspect to focus more on the positive aspects of the report, gains may be made in changing the negative regional perception.
- There needs to be greater dialogue between banks, FIUs and Government departments.
- CAB and BAs are to encourage governments to follow through on the gaps identified in their mutual evaluations.
- The CAB should engage consultants to develop a GDPR Code of Conduct for members.
- Develop communication channels with the officials (such as AGs) who attend key CFATF and Central bank meetings so that the details of the outcomes of the meetings can be acquired.
- The OECD provides avenues for regional authorities to get involved in the 'international tax standards' dialogue. CAB can help is to lobby governments to get involved and participate in these discussions.
- There is need for the CAB to increase its advocacy efforts by being present at critical fora on matters affecting the industry.
    -