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Feedback on Correspondent Banking Report by the Committee on Payments and Market Infrastructures (CPMI)

Correspondent banking is well recognized as providing a critical contribution to the global payment and financial system with cross-border transactions being facilitated to improve financial and economic stability throughout the world.

The CPMI report (October 2015) states that in many jurisdictions, there has been a recent trend of "de-risking" adopted by global banks, which have led them to either terminate or threaten to terminate their correspondent banking relationships (CBRs) with local banks. While globally, de-risking is emerging as an unintended consequence of several factors, the primary reasons highlighted are rising costs and uncertainty from regulatory and risk exposures affecting the incentive structure against certain classes of customer and certain kinds of transactions. As a result, some customers, business lines, markets, and jurisdictions are being perceived as too risky and costly in terms of compliance.

From the report's own analysis, it would appear that policy responses must be aimed at regulatory amendments and compliance related issues, versus any actions of greater information-sharing technical mechanisms by private and public sector entities. The working group in its report however limited its analysis to technical measures aimed at improving the efficacy of procedures, cost compliance and uncertainty of regulatory and risk exposures.

These measures do not seem to address or will provide any resolution to the uncertainty of how far customer due diligence should go; neither will it assist banks without current access to regain their previous status. In addition, for jurisdictions with data privacy laws, the use of information-sharing technical mechanisms will not be allowed.

The recommendations presented in the report are long-term in nature, and do not explore the key issues behind the sudden increase in de-risking, the main business lines (MVTS/MSBs) that are being terminated and the perceived obligation for knowing your customer's customers (KYCC).

More specifically, the legal entity identifier (LEI), which is recommended by the report as a way to uniquely identify parties to financial transactions may support greater financial sharing and transaction screening; however, it could contribute to higher compliance cost, without diminishing uncertainty.

The CPMI report also suggests that more reliance on Know Your Customer (KYC) utilities may reduce banks' compliance cost. However, with data variation, there will be a need for an independent and universal standard before any such utilities can be useful.

Surprisingly the report did not include feedback garnered from non-CPMI jurisdictions, most of which are the most affected by the withdrawal of correspondent banking relationships. The analysis seems to lack a rigorous framework as qualitative interviews were conducted with selected institutions, the exact nature, classification of categories and a number of these were not revealed in the report.

Overall, the report seems to lack a clear analytical framework after concluding that:

- The termination of correspondent banking relationships were primary commercial decisions made by international banks against certain classes of customers, businesses and jurisdictions due to evolving regulatory compliance changes; and

- Its impact on the compliance costs that made these businesses, classes of customers and jurisdictions no longer commercially viable for US banks and others elsewhere.

The report focused on a series of technical mechanisms aimed at cost reductions, even when these mechanisms could not restore lost relationships nor clearly determine how far customer due diligence should go.

The report also needs to expand its analysis to include economies and jurisdictions outside the CPMI countries, especially as the most affected economies generally lie within these economies. Finally, the report in suggesting greater information-sharing mechanisms, failed to suggest how data privacy laws in several jurisdictions will be overcome.

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