

John A Rolle: Industry solutions to the withdrawal of correspondent banking relationships

Opening remarks by Mr John A Rolle, Governor of the Central Bank of The Bahamas, at the Third Caribbean Roundtable on Industry Solutions to the Withdrawal of Correspondent Banking Relationships, Nassau, 29 October 2018.

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Good morning all, and welcome to the *Caribbean Roundtable on Industry Solutions to the Withdrawal of Correspondent Banking Relationships (CBRs)*. I would like to extend a special thanks to the International Monetary Fund (IMF) for convening these sessions. Events such as these provide valuable opportunities for stakeholders to engage, share ideas and plan decisive, actionable steps.

The February and November 2017 Roundtables in Barbados and Jamaica brought together global correspondent and respondent banks, and other stakeholders to discuss regional solutions to CBR withdrawal.

The discussions identified the need to strengthen respondent banks' risk management capacity, and considered whether there was merit in consolidation of transactional traffic and reconsideration of some high-risk business lines. Increasingly Fintech is seen as providing some outlet for relief, including through substitution for traditional intermediation channels. At the regional level, consolidation of AML/CFT supervision and implementation of standardized AML/CFT regulations were considered as well.

The CARICOM Central Bank Governors have continued to explore their own Action Plan developed in late 2016, which acknowledges the worth of some ideas that emerged in the Roundtable discussions, including effective communications strategies, ongoing data collection to inform policies and outreach, and broad domestic education to strengthen the culture of AML/CFT compliance.

Here in The Bahamas, we have taken a series of steps to lower the risk (both real and perceived) of banking. We have revised a suite of legislation, including the Proceeds of Crime Act, Anti-Terrorism Act, and the Financial Transactions Reporting Act and associated Regulations. In tandem with our fourth Mutual Evaluation Report, on AML/CFT effectiveness we revised our AML/CFT guidelines, and issued new guidance on proliferation financing; we have developed guidance on financial crime risk management, and revised our customer due diligence requirements for on-boarding of business. Working together, the Bahamian financial sector regulators held our first national conference on AML/CFT risks management in September 2018, to build general stakeholder awareness.

As technical improvements to AML/CFT regimes continue, the impression is that perceptions are not reforming fast enough. We need to understand why this is the case.

I should point out too that there are new strains around access to foreign currency cash services, which are being withdrawn from the limited channels that exists, in the Caribbean, underscoring the often qualified, restrictive nature of correspondent relationships that have survived.

The Financial Stability Board has observed that the corridors for correspondent banking services are still decreasing on a global basis, with fewer institutions providing the services. The volume of transactions though, has not declined, pointing to the rising concentration risks posed to jurisdictions, such as those in the Caribbean.

While we are encouraged by the promises that Fintech based solutions provide, especially for

AML/CFT systems and possibly some of the intermediation hurdles, there are important caveats such as these two:

- ♦ First, the promised solutions further underline the importance of making medium-term progress on cost effective harmonization, both in legal frameworks and in the practices of and standards that apply to the information content on the actors; and the transparent commercial context to financial flows.
- ♦ Second, nothing in the Fintech space points to outright elimination of the need for correspondent banks. Solutions proffered in our region do not eliminate the need for net international settlement in dominant currencies such as the US Dollar.

These two points should suffice in understanding the work that is still ahead of us, even though I could say much more.

Our medium-term progress therefore must always return to how we preserve CBR access, even if marginal substitutes are procured.

It is my hope that today's engagement will cement more progress in these areas, including more precision on technical assistance to reduce both our perceived and actual risk profiles.

Again, my thanks to the IMF for continuing to facilitate dialogue among all stakeholders.

Welcome.