Yandraduth Googoolye: The importance of promoting and safeguarding correspondent banking

Speech by Mr Yandraduth Googoolye, Governor of the Bank of Mauritius, at the Correspondent Banking Academy hosted by Standard Chartered Bank, Port Louis, 27 May 2019.

* * *

Distinguished Guests

Ladies and Gentlemen

Good morning

It is a great pleasure to be in your midst today. I wish to thank Standard Chartered Bank (Mauritius) Ltd for having organized this Correspondent Banking Academy and for inviting me to share my thoughts with you.

I understand that the Academy was launched in 2015. The Standard Chartered Group has already reached out to more than 1,000 banks in over 70 countries through such academies. As an internationally active bank with a presence in more than 60 markets around the world, Standard Chartered Bank is an excellent launch pad for this session on correspondent banking.

Events such as these offer valuable opportunities for stakeholders to engage and share ideas. Respondent banks will be provided with unique insights on the expectations of a global player offering correspondent banking services. I would, therefore, urge bankers to make the most of this initiative. It will help them clear out any doubts they may have on correspondent banking facilities.

Correspondent banking is as old as international finance. It is the lifeblood of international payments and financial flows, and provides vital support to economic growth and development. Global trade, remittances, portfolio and direct investment flows, and even humanitarian financial flows across countries are fundamentally dependent on correspondent banking services. Today, more than ever, our financial system is inextricably linked with those of other countries.

As with any other products offered by banks, the provision of correspondent banking services entails certain risks. These risks stem predominantly from AML/CFT. In the recent past, several international banks have been fined heftily for shortcomings in their AML/CFT controls and processes. As this line of business carries high volume but a thin margin, many banks have reconsidered their involvement in correspondent banking services. International banks have indicated that the cost of compliance dwarfs the business returns from smaller territories, particularly if these are classified as high-risk clients and deal with high-risk products.

The Financial Stability Board had previously highlighted that the corridors for correspondent banking services were shrinking on a global basis.[1] Fewer institutions are now providing such services. However, given that the volume of transactions is not declining, this development is increasing the concentration risks posed by the reliance on only a few institutions.

The strategy of many international banks to retreat from the provision of correspondent banking services has resulted in unintended consequences. Many banks have even shunted jurisdictions by closing down their operations or disposing of them to other local players. Emerging markets and developing economies are most affected by such moves. I need not delve on the turmoil our continent could face if deprived of access to correspondent banking services. The implications would be on several fronts, including trade, economic prospects, education, health, and poverty.

Only two weeks ago, I had pointed out during the 2019 AACB Continental Seminar that Africa is far more dependent on overseas trade than any other economic region or global player. Correspondent banking has therefore a particular resonance to the continent. In 2018, the World Bank released a report on the decline in access to correspondent banking services in emerging markets.[2] The report highlighted that de-risking has had cross-border spill over effects, especially in the Southern African Development Community.

Pan-African banks have been under pressure from their correspondents to refrain from conducting certain businesses with neighbouring countries to preserve access to correspondent banking services. Consequently, USD clearing has been terminated or restricted in several countries. This has in turn further weakened some local economies.

The report also stated that there are concerns that de-risking has resulted in the creation of new, informal channels. Money is now flowing through these channels, driving financial transactions outside regulated channels. This development could potentially undermine AML/CFT objectives.

One of the suggested avenues in the World Bank Report to address the issue is to establish or maintain open channels of communication between correspondent and respondent banks. The aim is to increase the awareness of both correspondent and respondent banks on the country context and their respective AML/CFT concerns.

The initiative of Standard Chartered Bank to host today's event is indeed commendable. We all share a common goal: that of safeguarding the financial system from abuse. The Correspondent Banking Academy constitutes an excellent communication platform between Standard Chartered Bank (Mauritius) Ltd with its respondent banks and vice versa. It facilitates fruitful exchange of experience and action plans put in place to address the AML/CFT concerns in correspondent banking relationships.

It is my hope that today's engagement will cement more progress in this area. One of the key takeaways for respondent banks should be the specific measures they can implement to reduce both their perceived and actual risk profiles to the satisfaction of correspondent banks.

At the level of the Bank of Mauritius, our approach has been characterized by an open door and open dialogue policy. We are ever ready to have an open dialogue with correspondent banks to explain the supervisory framework in Mauritius and give reassurance on its robustness.

AML/CFT is one of the key priorities for Mauritius and the Bank of Mauritius. As you are certainly aware, the Mutual Evaluation Report (MER) of the assessment of the AML/CFT measures of Mauritius was published by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in September 2018. The MER revealed that Mauritius had not done enough to keep up with the changes which the FATF brought in 2012 to the International Standards on combating money laundering and the financing of terrorism and proliferation.

Following the revision of the FATF Recommendations in 2012, the assessment of compliance with the FATF Recommendations is not limited to technical compliance and the forty recommendations made. It also involves an assessment of the effectiveness of a country's AML/CFT systems with a view to ascertaining whether the country's *"financial systems and the broader economy are protected from the threats of money laundering and the financing of terrorism, thereby strengthening financial sector integrity and contributing to safety and security."*

I must say that even before the publication of the Mauritius MER in September 2018, Mauritius had already started bringing legislative amendments to various pieces of legislation—including the Financial Intelligence and Anti-Money Laundering Act and the Banking Laws—to address the deficiencies. New regulations were promulgated under the Financial Intelligence and Anti-Money Laundering Act in October 2018, which mirrored the provisions of the FATF Recommendations. Following these legislative changes, Mauritius submitted an application for Technical Compliance Re-rating of 12 recommendations, among which 11 were successfully upgraded.

Just last week[1], two new pieces of legislations were voted at the National Assembly. These are the United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Bill, and the Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation (Miscellaneous Provisions) Bill.

---

[1] *Tuesday 21 May 2019*

The legislation reinforces the arsenal of Mauritius in the fight against financial crimes. They will support the country's second application for Technical Compliance rerating on 20 FATF Recommendations. These are clear testament of the progress made in addressing the deficiencies identified in the MER. Technical compliance with the FATF Recommendations, however, is not sufficient. Mauritius must also demonstrate that its AML/CFT systems and measures are effective.

The fight against financial crime and AML/CFT is one that requires the involvement of all stakeholders. As a means of fostering closer collaboration amongst local authorities, two new MOUs were signed on 19 September 2018 among the Financial Services Commission (FSC), Bank of Mauritius and Financial Intelligence Unit (FIU) on the one hand, and the FSC, FIU and Independent Commission Against Commission, on the other hand. These two tripartite MOUs add to the gamut of existing bilateral and multilateral MOUs. In terms of coordinated actions with foreign authorities, we have, as of date, signed memoranda of understanding with some 17 supervisory authorities for sharing of information and collaborative actions.

The Bank of Mauritius has also enhanced its internal supervisory framework on AML/CFT by setting up a dedicated AML/CFT team. We have upgraded the AML/CFT off-site monitoring supervisory toolkit through a revision of reporting requirements by banks. Further, with technical assistance from the World Bank, we are implementing a Risk-Based Supervisory Framework which includes a separate module for ML/FT risk. Significant progress has been achieved and we expect to conduct a series of pilot run exercises shortly to test the frameworks.

Banks, on their part, are expected to migrate to risk-based internal audit framework to complement the risk-based supervisory framework. Concurrently, the Bank of Mauritius is working towards implementing a Central KYC Registry to facilitate the KYC procedure of banks.

Ladies and Gentlemen, you will appreciate that no matter how elaborate, effective and comprehensive our regulatory and supervisory framework is, there will always be some element of residual risk that has to be managed by banks.

Let me also underscore that the fight for a clean and attractive international financial centre like ours is the concern of one and all, and is an ongoing process. Your input is and will remain valuable as we continue to modernize our regulatory framework. We shall continue to work towards a financial system that is as safe as possible. You will remain a privileged partner in that process as we cannot achieve anything of substance without your cooperation. We look forward to continued collaboration with all of you as usual.

With this final thought, I hope that by the end of today's academy, we will have learnt from each other ways and means of improving our approach to strengthening the risk management framework for AML/CFT risks associated with correspondent banking relationships.

On behalf of the Bank of Mauritius, and in my own name, I wish every success to this event.

Thank you.

---

[1] The Financial Stability Board. "FSB Correspondent Banking Data Report – Update Nov 2018."

[2] The World Bank. 2018. “The Decline in Access to Correspondent Banking Services in Emerging Markets: Trends, Impacts, and Solutions.”