



**CCAA-IDB Conference on
Finance, Fintech and the Future of Banking in the Caribbean Basin**

Closing Keynote Address
Correspondent Banking Relationships: Policy Responses and Industry Solutions

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Good afternoon, ladies and gentlemen.

As the discussions of the last two days come to a close, I would like to take this opportunity to share with you the key challenges we have faced in Jamaica in addressing the threat presented by de-risking and the shape of Jamaica's policy response.

Financial institutions in Jamaica started facing de-risking by global banks several years ago with a noticeable acceleration in the pace becoming evident in 2015. The impact has been mixed. In some cases, correspondent banking relationships were restricted. In others, they were terminated. In yet others, enhanced due diligence or additional information requirements were imposed.

While Jamaican banks as a matter of prudent practice maintained sufficient correspondent banking relationships such that they were not faced with an existential threat and were able to continue normal operations without interruption, there was nevertheless a price to be paid. Unfortunately, with only one exception, there was no opportunity to negotiate a monetary price. Instead, the changes in correspondent banking relationships significantly impacted the ability of local banks to service relationships with local foreign exchange clients

such as cambios and remittance service providers thus simultaneously undermining competition in the foreign exchange market and reversing progress in financial inclusion. The changes also affected other cash-intensive businesses such as supermarkets. New layers of approvals for the on-boarding of new correspondent banking relationships significantly increased the cost of implementing know your customers' customers (KYCC) measures. Conservatively, this has been estimated to cost about US\$100 per customer in Jamaica, an astronomical two per cent of per capita GDP.

Jamaica has in the past been categorised as being vulnerable to money laundering, particularly because the cambio businesses deal in relatively high volumes of foreign currency cash.¹ Partly because of this, Jamaica has dedicated considerable resources to addressing these concerns by progressively implementing the FATF recommendations.

The legal framework in Jamaica has been bolstered to disrupt the use of the proceeds of crime, prevent the financial system being used for the financing of terrorism and enhance supervisory oversight in general of financial service providers. Amongst other things, this has ensured that the relevant agencies are empowered to investigate financial crime and undertake significant cooperation and information-sharing with overseas partners. We have gone further than most and even criminalised the use of cash in Jamaica above a specified limit.

However, ladies and gentlemen, while it is clear that impacted jurisdictions must address any regulatory infrastructure deficiencies with dispatch, there is an urgent need for correspondent banks to review and, we urge, change their approach to de-risking. Care must be taken to assess each jurisdiction to measure properly the level of risk and the actual supervisory and enforcement mechanisms in place.²

¹ Bureau of International Narcotics and Law Enforcement Affairs (2013). “2013 International Narcotics Control Strategy Report”. Available at: <http://www.state.gov/j/inl/rls/nrcrpt/2013/vol2/204062.htm>.

² “Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering Examination Manual”. Available at: http://www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm

In that regard, Jamaica sees engagement with its international banking and regulatory partners as critical in reducing unwarranted perceptions. Earlier this year, government and banking representatives from the United States and Caribbean countries participated in the “US-Caribbean Public Private Dialogue on Correspondent Banking” held in Jamaica and jointly hosted by the US Department of Treasury and Bank of Jamaica. Sharing information on challenges and progress made by Caribbean countries to mitigate risk and to implement and enforce AML/CFT standards were valuable first steps. In our case, we next prioritised meaningful engagement with our partners in the US Treasury Department to deepen the understanding of US policymakers and regulators of Jamaica’s progress in the fight against money laundering while improving our knowledge of their specific concerns. While a clear solution has remained elusive, I believe that this type of interaction is most likely to provide us with the way forward.

But, despite our progress, some correspondent banks may still undertake broad-based terminations of relationships given their assessment of the costs of compliance and slim returns in small markets. Because of this, the solution to this problem goes beyond simply upgrading the regulatory and supervisory framework in affected countries or correspondent banks changing their risk assessments.

One solution is to build capacity in know your customer (KYC) utilities and the development of national identification systems and then to implement a framework to support reliance on them. Such systems would provide standardised identification of natural persons and a centralised database from which KYC information can be retrieved and shared. These tools have significant potential in the near to medium-term if they can be implemented with common standards across the Caribbean region.

Jamaica has already embarked on preparing the way for such a solution through the development of a national identification system (NIDS) which, properly executed, can provide a unique personal identifier for every Jamaican utilising appropriate biometric information. This system can serve as the cornerstone for a technology-driven approach to address international compliance requirements.

I would like to take this opportunity to publicly thank the Inter-American Development Bank for the role it has played in funding the project to date with grant funding of US\$670,000 which helped to fund the first phase of this project.

The responsibilities and the associated costs of the development and implementation of such KYC and national identification system utilities cannot be borne solely by small developing states. But, if not addressed, it could lead to a dynamic that undermines one of our flagship development goals of broadening financial inclusion in Jamaica.³

We therefore need to hasten the development of innovative partnerships between multilateral financial institutions, governing bodies for AML/CFT and the developers of these technologies to undertake projects to develop such systems for low-cost introduction into jurisdictions such as ours in the Caribbean.

In closing, I would like to say this: de-risking presents an undue headwind for small developing states in their quest for sustainable growth and prosperity. I would like to invite international standard setters and our multilateral partners to place focused and sustained effort on the development and articulation of standards that promote financial inclusion and the provision of practical guidance on how to reconcile them with the current safeguards against terrorism financing and the proceeds of crime entering the financial system.

And we would ask that due care be taken to ensure that these methods do not marginalise and exclude the financial systems of small vulnerable states.

Thank you.

³ Correspondent Banking. BIS' Committee on Payments and Market Infrastructures (2016). <https://www.bis.org/cpmi/publ/d147.pdf>