2015

ACCESS TO BANKING SERVICES BY NBFIs

a World Outlook

Leon Isaacs

Leon Isaacs

dma
developing markets associates

IMTC WORLD 2015
Miami Beach, FL
Nov 9-12, 2015

IMTC

developing markets associates

What I will cover

- Overview
- Drivers of the issue
- Impact
- Looking toward solutions

developing markets associates

Overview

Situations where financial institutions terminate or restrict business relationships with categories of customer - FATF-GAFI

Affecting a range of customer categories:

- Embassies
- Current & former government officials and their families
- Charities/NGOs
- Legal marijuana dispensaries
- Correspondent banks
- Digital currency operators
- Crowdfunding platforms
- Gambling businesses
- Jewellers

Overview

- **US**
  - 2001 – Patriot Act
  - 2005 – Joint Statement issued by US Treasury and federal banking regulators stating banks not responsible for monitoring AML compliance by their MSB customers
  - 2013 - Operation Choke Point
- **Canada** – Anecdotal reports of difficulty MSBs have in accessing services
- **UK**
  - Almost all high street banks have exited MSB sector.
  - HSBC exited across 2011-2012
  - Barclays exited in 2013.
- **Australia** – Westpac announced exit of sector on 31 March 2015, last bank standing in this space
- **Dominican Republic** – Closure of accounts for exchange sector. Reports of strong pressure from US based clearing banks to limit access to national banks

developing markets associates

Drivers

developing markets associates

Drivers

Financial Institution	Alleged Offence	Amount Fined	Authority Issuing the Fine
HSBC	Alleged Money Laundering Lapses	**$1.9 Billion**	US Justice Department
Standard Chartered	Alleged breach of US Sanctions	**$674 Million**	US Federal reserve, Department of Justice, New York Department
Lloyds TSB	Alleged breach of US Sanctions	**$350 Million**	US Justice Department
Western Union	Alleged Money Laundering Lapses	**$94 Million**	State of Arizona
Moneygram	Weakness in AML Controls	**$100 Million**	US Justice Department
Coutts & Co	Weakness in AML Controls	**£8.75 Million**	Financial Conduct Authority
Guaranty Trust Bank	Weakness in AML Controls	**£525 Thousand**	Financial Conduct Authority
Habib Bank AG Zurich	Weakness in AML Controls	**£525 Thousand**	Financial Conduct Authority
Turkish Bank (UK) Ltd	Weakness in AML Controls	**£294 Thousand**	Financial Conduct Authority

developing markets associates

Drivers

"risk outweighs the benefit"

- There is a changing relationship to risk, greater emphasis on risk-management
- Banks are seeing soaring compliance costs
  - Cost of monitoring customer transactions and managing data
  - Investigating suspicious transactions and acting on them
  - Hiring compliance specialists and investing in new systems
  - Costs of customer audits and KYC
- Take very seriously items published by FATF and US regulators, as well as by local regulators and law enforcement
- However, there is a lack of confidence in the supervision of MSBs
- Maintaining relationships in high-risk categories not profitable or in the interest of the bank. Particularly when there is potential jail time on the table.

developing markets associates

Impact - Somalia

- Remittances are an important lifeline, comprising approximately 60% of beneficiary's annual income

- With lack of strong financial infrastructure, regulators, supervision, coupled with threats from Al-Shabaab, seen as a *very* high-risk geography

- **UK** – after Barclay's exited the MSB sector, it is fair to say that no Somali focused operator has a direct bank account. They are instead using costly 3rd party cash collection services

- **US** –Merchants Bank of California closed Somali MTO accounts

- These actions threaten to exclude Somalia from the formal global financial system

developing markets associates

Impact – Mexico

"Global banks have largely abandoned clearing and remittance handling activities in Mexico"

- Mexican banks and remittance companies struggling to find banks that will provide service of converting pesos to US dollars for processing payments – dollar clearing
- Over the past 5 years US banks have closed over 50 correspondent accounts for Mexican banks
- Scrutiny for big banks' Mexican operations — and Mexico's domestic banks — intensified after HSBC's $1.9bn for allegedly laundering money for drug cartels and violating sanctions.
- Affects remittance companies as banks are refusing to receive US dollar deposits and limits access by individuals and companies to global banking system.

developing markets associates

Looking toward solutions

It is important to point out that there is no single solution and that many approaches may well be needed to make progress. Potential solutions include:

1. Form a stakeholder group that can fully identify the issues and is empowered to make specific recommendations, implement solutions, etc.

2. More guidance from regulators

3. Banks should be encouraged to publish criteria for account opening (or remaining open) so that MSBs can meet them

4. Work with remittance industry to address areas for improvement

5. Consider establishing an independent appeals process for companies who have their new account application rejected or an account closed

developing markets associates

Looking toward solutions

6. Strengthen link between domestic and international agendas around remittances – work with the international community

7. Alignment of approach across different regulators and supervisors at a Federal and State level. Supervision of MTOs to be conducted in a co-ordinated manner and in a way that gives confidence to banks

8. Categorise different risk challenges. Develop alternative guidance/support for certain high risk corridors

9. Stricter AML/CFT training requirements for MSBs

10. Consider the proposition that SME MSB businesses have a right to a bank account.

developing markets associates

Leon Isaacs
CEO, DMA
Leon.Isaacs@developingmarkets.com
+44 (0)203 117 2500