

IMTC
WORLD
2017



Nora Asha Gurung

Digital Financial Services Observatory

Columbia University

Research on Derisking A refusal to supply



Columbia Institute
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- Legal & regulatory database on DFS
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- Annual DFS & Emerging Payments Summit
- Webinars
- Roundtables
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- Close collaboration with industry, regulators, academics, donors, SSBs around the world



DE-RISKING AND ITS EFFECT ON INTERNATIONAL REMITTANCES AND FINANCIAL INCLUSION

Roundtable event on the current state of De-Risking

November 20, 2017 at Columbia University

- Opening Remarks: Professor Eli Noam, Director, CITI
- Overview of DFSO Research on De-risking: Michael M. Wechsler Esq, Research Scholar, DFSO, CITI
- Closing Remarks by Dr. Leon Perlman, Head, DFSO
- Moderators: Dr. Leon Perlman, Head, DFSO & Michael M. Wechsler Esq, Research Scholar, DFSO, CITI



DE-RISKING AND ITS EFFECT ON INTERNATIONAL REMITTANCES AND FINANCIAL INCLUSION

Speakers discussed the challenges it poses and the potential solutions

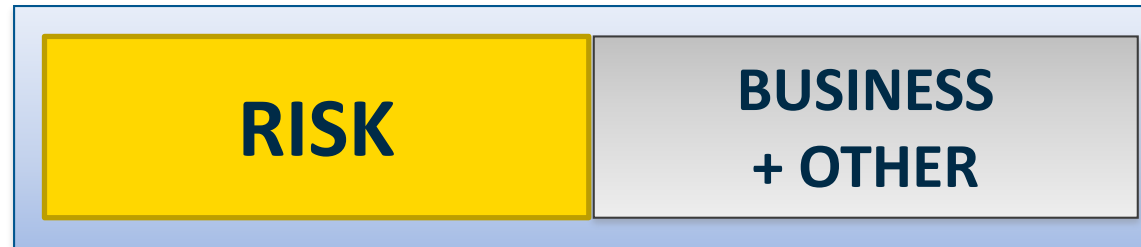
- Mohamed Ibrahim, Head, National ICT & Digital Economy, Somalia
- Governor John A. Rolle, Governor of the Central Bank of Bahamas, Bahamas
- Grovetta Gardineer, Senior Deputy Comptroller, Office of the Comptroller of the Currency, USA
- Margaret Miller, World Bank
- Dr. Toussant Boyce, Head, Office of Integrity, Compliance and Accountability, Caribbean Development Bank, Barbados
- Hugo Cuevas-Mohr, Mohr World Consulting & IMTC, USA
- Kathy Tomasofsky, Director, Money Service Business Association (MSBA), USA
- Oliver Gale, Founder, Bitt, Barbados
- Mark Corritori, Senior Director, Global Push Payments, MasterCard

BANK/FINANCIAL SERVICES “DE-RISKING”

- **“De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.”** (*World Bank, FATF*)
 - FATF: Before considering a decision to “de-risk”, clients should be reviewed on a case-by-case basis using FATF’s Risk-Based Approach. (RBA)
 - Clients with an unacceptable level of risk are appropriately removed.
 - Inappropriate: “... *the wholesale cutting loose of entire classes of customer*” without a bona-fide attempt to assess each client’s/sector’s level of risk or risk mitigation measures.
- **“De-risking can be the result of various drivers... *It is a misconception to characterize de-risking exclusively as an anti-money laundering issue.*”** (FATF)



DECISION DRIVERS OF “DE-RISKING”



- **Regulatory (AML/CFT + others)**
 - Unable to meet compliance standards or satisfy regulators or afford costs
- **Penalties: fines & sanctions**
 - Huge fines, civil penalties
 - Personal liability (Compliance Officers)
 - Criminal charges
- **Reputational Risk**
- Legal Risk (costs & liabilities)
- Risk Absorption
- **Risk Appetite (decreasing)**
- **Jurisdiction subject to sanctions**
- Fear
- **Not profitable**
- **Not profitable enough**
- **Change in business model**
- Complexity – beyond capability, capacity
- Non-functional counterparty
- **Competition**

DE-CONSTRUCTING DERISKING AS 'A REFUSAL TO SUPPLY'

THE ACT: 'De-risking' = Refusal to Supply

THE DRIVERS: Multiple, not necessarily related to risk

THE EFFECT: Financial Exclusion

The entirety of the problem:

People and businesses, acting legitimately, are increasingly being refused access to financial services on a large scale.

WHO IS REFUSING SERVICES?

- **Entities**
 - Financial institutions, primarily banks and G-SIBs
- **Jurisdictions**
 - United States
 - European Union
 - United Kingdom
 - Australia
 - New Zealand
 - Canada



WHO IS BEING IMPACTED?

- **Entities**

- Banks - correspondent banking relationships (CBR)
- Remittances: Money Transfer Operators (MTO)
 - MSB, PSP, PI
- Non-Governmental Organizations (NGO), Non-Profit Organizations (NPOs) (+ Charities)
- Foreign Embassies
- Politically Exposed Persons (PEP)
- Startups, especially FinTech and Bitcoin-related (FCA)

- **Jurisdictions**

- Small States (SIDS - Caribbean and Pacific small states)
- Latin America
- Sub-Saharan Africa
- Middle East and North Africa
- Europe and Southeast Asia

SOLUTIONS AND STOPGAPS TO COUNTER REFUSAL

- **Policy-based**
 - Public-Private Meeting, Safe Harbor, Diplomacy
- **Regional**
 - Centralized Transaction Hubs, Regional Correspondent Banks
- **Central Bank-based**
 - Development Bank Voucher System (Tonga), Central Bank acting as the Correspondent Bank (Samoa)
- **Legal challenges**
- **Fintech/Non-bank Industry-led**
 - Expansion of the role of NBFIs, Netting, Currency-pairing, Blockchain



THANK YOU

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