PANEL

Mitigating the Effects of Derisking in the Fund Transfer Industry

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ASSOCIATION OF BANK REMITTANCE OFFICERS, INC. • ABROI •

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IMTC

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MITIGATING THE EFFECTS OF DE-RISKING IN THE FUND TRANSFER INDUSTRY

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Manila, Philippines

Presentation Outline:

1. What is De-risking?
    a) Anatomy of x-border remittance flow
    b) Extent of de-risking on Philippine operators
    c) Potential impact of de-risking
2. Addressing de-risking thru financial inclusion
3. Progressive Regulatory framework
4. MSB compliance standard and capacity-building (e.g. Australia model)
5. Industry utilities for KYC
6. Blockchain & new models bypassing the financial centers

What is De-Risking?

“De-risking” is where global financial institutions restrict relationships with remittance companies and certain local banks because of perceived anti-money laundering risks. (World Bank)

“De-risking” is the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF’s risk-based approach. (Financial Action Task Force- FATF)

“De-risking” refers to financial institutions closing the accounts of clients perceived as high risk for money laundering or terrorist financing abuse, namely money service businesses, nonprofit organizations, correspondent banks, and foreign embassies. (Global Center on Cooperative Securities)

ANATOMY OF X-BORDER REMITTANCE TRANSACTION FLOW

Overseas Filipino Worker (OFW)

- Go to Remittance Company
- Fill-out forms and present identification documents
- Pay remittance amount and corresponding service fees (in local currency)

Remittance Company

- Perform customer due diligence
- Receive forms and money
- Encode transaction in remittance system
- Issue receipt
- Consolidate transactions for the day and transmit information to bank or fulfillment partner in the Philippines
- Deposit remittance collections to bank in host country

Remittance Transaction Details

Remittance Company's Bank

- Accept remittance of OFW/ or deposit of Remittance Company
- Transfer funds to correspondent bank of Philippine bank

Correspondent Bank of Philippine Bank

- Receive funds to be transferred to the Philippines
- Transfer funds to bank in the Philippines or account of Remittance Agent in a Philippine bank in agreed-upon settlement currency

Foreign side

Remittance Transaction Details

Philippine side

Philippine Banks and MSBs/MTOs

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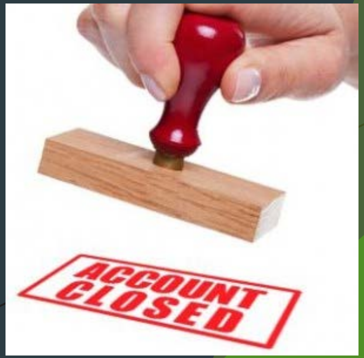
Extent of De-risking on Philippine operators

Subject of account termination, account restriction, and more exhaustive EDD procedures

Based on result of quarterly industry surveys,
160 operating accounts
of Philippine banks and remcos
have been closed by 52 correspondent banks
in 18 countries!

(Survey result as of June 30, 2018)



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Mitigating the Effects of De-risking in the Fund Transfer Industry

SUMMARY OF SURVEY ON ACCOUNT CLOSURES						
No.	Countries	Type of Account Closed			Total Accounts Closed	Foreign Banks Involved
		Nostro	Bank Sub	Remco		
1	Australia	1		51	52	6
2	UK	5	5	10	20	7
3	HK	5	12	1	18	9
4	Canada	5	2	11	18	8
5	USA	2	8	4	14	5
6	New Zealand	1		10	11	6
7	Italy		2	7	9	7
8	Singapore	1	2	1	4	3
9	Papua New Guinea			3	3	4
10	France		1	1	2	2
11	Spain			2	2	2
12	Germany			1	1	2
13	Saipan			1	1	1
14	Cyprus	1			1	1
15	Brunei			1	1	1
16	Austria		1		1	1
17	Ireland			1	1	1
18	Taiwan	1			1	1
	Total	**22**	**33**	**105**	**160**	
Total Countries/jurisdictions affected:					18	
Total Foreign Banks involved:					52	
Total Number of Accounts Closed:					**160**	

As of June 30, 2018, based on survey conducted among ABROI and APPRISE members

Mitigating the Effects of De-risking in the Fund Transfer Industry

Remittance Account Closure Trend - 2010 to 2018

No.	Countries	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	Australia			5	5	13	12	8	8	
2	UK			1	6	2	7	2	1	
3	Canada	2	2	5	2			3	1	1
4	HK		2	2	4	3	3	2		
5	USA			2	2	6	2			
6	New Zealand		2		1	3		4		
7	Italy				2	5	1		1	
8	Singapore		2	2	1					
9	Papua New Guinea					3				
10	France						1	1		
11	Spain									
12	Germany				1		1			
13	Saipan					1				
14	Cyprus									
15	Brunei		1							
16	Austria					1				
17	Ireland								1	
18	Taiwan									1
	Total	2	9	17	24	37	27	20	12	2

Note: some of the accounts reported closed occurred prior to 2010, or no date reported

As of June 30, 2018, based on survey conducted among ABROI and APPRISE members

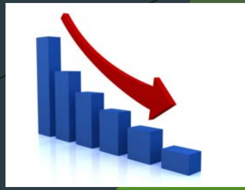
Foreign Banks Involved in De-Risking of Philippine Remittance Accounts

No.	Countries	# Accts	Foreign Banks Involved	
1	Australia	52	6	Natl Aust Bank, ANZ, Commonwealth, Westpac, St.George, Macquarie
2	UK	20	7	Barclays, HSBC, RBS/NatWest, Lloyds, Ulster Bank, Royal Bank of Scotland,Deustche Bank
3	Canada	16	7	TD, RBC, Canadian Imperial, BMO, Meredian, Bank of Nova Scotia,HSBC
4	HK	18	9	HSBC, StanChart, RBS, Wing Hang, Hang Seng, DBS, Bank of East Asia, Bank of China, UOB
5	USA	14	5	Bank of America, Bank of Hawaii, First Bank, Liberty Bank,HSBC
6	New Zealand	11	6	ANZ, Bank of New Zealand, Kiwibank, Westpac, NAB, ASB
7	Italy	9	7	Intesa San Paolo, Banca Vicenza, Credem, Banco Populare, Monte de Paschi, Banca Etruria, ICBC
8	Singapore	4	3	UOB, OCBC, StanChart
9	Papua New Guinea	3	4	Bank of South Pacific, Westpac, NAB, ANZ
10	France	2	2	Societe General, Barclays
11	Spain	2	2	Banco De Sabadell, La Caixa Bank
12	Germany	1	2	PostBank, Deutschebank
13	Saipan	1	1	Bank of Saipan
14	Cyprus	1	1	Cyprus Popular Bank
15	Brunei	1	1	StanChart
16	Austria	1	1	PSK Bawag
17	Ireland	1	1	Bank of Ireland

As of June 2018, based on survey conducted among ABROI and APPRISE members

Possible Impact of De-Risking

- Loss of competition if MSBs/ MTOs are excluded due to account closures
- Higher operating costs to maintain compliance gets passed on to customers in terms of higher fees
- Exclusion of unbanked migrant workers.
- Possible loss of remittance value received by beneficiaries and recipient economy
- Diversion of funds flow to less regulated shadow channels increases AML and safety risks



Mitigating De-risking Outcomes Thru Financial Inclusion

- Most global banks are averse to the cash nature of remittance transactions
- High likelihood that low skilled migrant workers and their beneficiaries are unbanked
- Encourage foreign employers to assist/facilitate account opening of their migrant worker; credit salary/compensation thru bank accounts or e-wallets with x-border functionality

Mitigating De-risking Outcomes
Thru Progressive Regulatory Framework

- Reduce vague and conflicting regulatory issuances on AML/CFT and desire for financial inclusion
- Framework to encourage transparency and competition
- PSD2?
- Accommodate new/ emerging business models
- Promote financial inclusion and cash-lite economy

Mitigating De-risking Outcomes
Thru MSB Compliance Standard and Capacity Building

- Major issue in de-risking is the lack of confidence of regulators on the integrity of remittance service providers and their ability to provide appropriate CDD

- Open communication between fund transfer industry and regulators to identify pain points and increase capacity and assurance levels through training, certification, and other confidence building activities (Australia model)

Mitigating De-risking Outcomes Thru Industry Utilities for KYC

- Some global banks de-risk due to the high cost of compliance screening
- KYC utility is a central third party service that serves as repository storing KYC data and documents that financial institutions need to carry out their know-your-customer due diligence.
- Can be performed or hosted by financial authorities as a trusted source of KYC information of MSBs domiciled in their respective jurisdictions

Mitigating De-risking Outcomes
Thru New Business Models/ Bypassing the financial centers

- Emerging business models can bypass traditional financial centers and transfer funds directly between two countries *(comment from audience during GFRID-2018)*

- Blockchain or distributed ledger technology allows decentralized movement of cryptocurrency across borders bypassing current regulatory screenings *(until converted to fiat currency)*

- Blockchain has the potential to reduce compliance costs associated with the KYC process (IFC/WB)
  https://www.ifc.org/wps/wcm/connect/e61e2d89-7e8e-4b55-9b22-95769263b3e9/EMCompass+Note+38+Derisking+and+Blockchain+5-24+FINAL.pdf?MOD=AJPERES

THANK YOU!

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