JULIO 28 - 29
Hotel Hilton Cartagena

16 CONGRESO PANAMERICANO DE RIESGO DE LAVADO DE ACTIVOS Y FINANCIACIÓN DEL TERRORISMO

PREVENIR, OBJETIVO DE TODOS

The Revolution is Here

How Risk is Rapidly Shifting International Finance

FIBA

FIBA in the News*

“Compliance responsibilities and regulations may differ from region-to-region in terms of what’s expected by regulators and what’s realistic for Banks, however, the common goal is to find practical solutions that protect customers, institutions and the overall system.”
Funds Society, 2016

“The pendulum is still swinging in the direction of more regulation – this is a fact”
South Florida Business Journal, 2016

“The stricter regulations are causing a reduction in the extensions of credit loans, due to higher costs for the lending institution.”
Miami Today, 2015

“Strict due-diligence requirements on American banks means money launderers may look to peripheral players in the financial industry, such as lawyers and offshore firms.”
Miami Herald, 2016

*as quoted by FIBA CEO David Schwartz

Agenda

- Snapshot
- Why are Banks De-Risking?
- Impact on Latin America and Caribbean
- How Can We Improve the Situation?
- Closing

Snapshot

Overview

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It's more than just the risk.

- International trade finance remains a vital path to economic growth — especially for developing nations.
- However, macro-economic headwinds, cyber-security issues and tighter regulations threaten stability and access to capital for those who need it most.
- The banking system attempts to strike the right balance between regulatory compliance and safely expanding cross-border trade activity.
- These issues are particularly acute in Latin America; a region long known for political revolutions now faces one of a different kind…***financial.***

Overview

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What to keep in mind.

- The reality is “zero risk” factor doesn’t exist in AML issues.
- De-risking is riskier than the risk that is being administered.
- Understand that rising regulatory expectations demand greater responsibilities for banks and their managers therefore there’s a need to act on a case-by-case basis.
- Our industry calls for a standardization of the rules of Risk-Based Approach (RBA) and in turn, a more consistent global application.
- Corruption and fraud are major concerns.

Why Are Banks De-Risking?

Compliance Cost

A Major Problem

- This leads to difficulty upholding a key compliance requirement — ***transactional transparency*** (know your customer's customer).

- Vital resources and tools like specialized executives and technology have increased operational budgets are either in short supply or just plain absent.

- The increased cost of anti-money laundering (AML) scrutiny required has constrained the growth of trade finance due to regulation fatigue.

- Transactional costs have increased 30%-50% depending upon the country.

- The cost/benefit analysis of a correspondent relationship has become of primary importance as banks to seek higher margin products. If it is not profitable it must be closed.

Regulatory Risk

- Exceptionally strict anti-money laundering and anti-terrorist actions have led financial institutions to actively “de-risk” their portfolios.
- Increase in regulatory and compliance costs have driven unprofitable accounts out of the system.
- Perception that Latin American and particularly Caribbean nations have not done enough in terms of anti-money laundering and terrorist financing.
- Billions of dollars in fines have been issued to institutions for failing to comply with regulations, creating a cost-benefit analysis that leads to “over-doing it”.
- Perception of correspondent banking and Money Service Businesses (MSBs) as the highest risk lines of business. Many of the recent AML-related fines were a result of failures in managing these relationships.
- Recent OFAC actions in Honduras and Panama

Basel III

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- Basel III reforms and regulations have been developed to raise financial institutions' resilience to systemic stress.
- While clearly needed after the 2008 global crisis, these reforms have also created new risks and unintended consequences.
- Particularly true in Latin America where a Risk Weight of up to 150% may be required on short term loans related to trade finance. By comparison, the weight for developed nations runs closer to 20%.

Impact on Latin America & Caribbean

Regulatory Risk

- Large global banks are ridding themselves of all accounts from 2nd and 3rd tier foreign institutions to ease the burden of complying with Know Your Customer (KYC) regulations. Small and medium sized are no longer absorbing the overflow.
- Financial institutions are inadvertently forced to look for alternative methods of lending and payments which are less transparent.
- Creates trade finance gaps impacting SMEs.
- Lenders and financial institutions encouraged to join forces and propose viable solutions to this risk.
- Intra-Regional and in-country de-risking to avoid potential loss of U.S. correspondent relationship leading to consolidation.
- Lack of access to the U.S. financial system puts a de-facto embargo on the region

Regulatory Risk

- De-risking, seen as a way to reduce reputational risk and criminal prosecution, should be considered on a case-by-case basis and if not, could move correspondent banking flows to less well-regulated entities or payment facilities.
- Fraying network of relationships that tie the global financial system together, driving up costs of finance for underdeveloped countries. Increased investments, force clients to produce more in order to cover additional costs.
- One casualty of the pullback is the very institution of correspondent banking itself, with large institutional banks now exiting the scene and less experienced newcomers entering.
- Without international banks, accessing finance for importing and exporting goods, transferring money abroad, as seen with remittances, becomes prohibitively expensive for regions like Latin America.

Basel III

- The net effect has been to squeeze smaller, local banks out of the lending process, leaving their customers with nowhere to go to obtain loans.
- Basel III is unintended consequence of reforms….it's become an unintended consequence of de-risking.
- Since implementation, banks have reduced their trade finance portfolios by 20%.

Basel III

Causing Increase in Capital

Effect on Capital required for a $1,000,000 loan – Assumes a 10% capital ratio.

**minimum

Transaction Amount:	$ 1,000,000.00			Previous			Basel III			PROPOSED			
Country:	Loan to	Tenor	Type	Risk Weighting, Basel I	Risk Weighted Asset	Capital Required	Risk Weighting Basel III	Risk Weighted Asset	Capital Required	Product/Tenor adjustment	Adjusted Basel III weighting	Risk Weighted Asset	Capital Required
Chile (OECD: 2)	Foreign bank	1 year	Trade	20%	$200,000	$20,000	50%	$500,000	$50,000	30%	20%**	$200,000	$20,000
	Corporate Customer	3 years	Unsecured Working Capital	100%	$1,000,000	$100,000	100%	$1,000,000	$100,000	N/A	100%	$1,000,000	$100,000
Brazil, Peru (OECD: 3)	Foreign bank	1 year	Trade	20%	$200,000	$20,000	100%	$1,000,000	$100,000	30%	30%	$300,000	$30,000
	Corporate Customer	3 years	Unsecured Working Capital	100%	$1,000,000	$100,000	100%	$1,000,000	$100,000	N/A	100%	$1,000,000	$100,000
Colombia (OECD: 4)	Foreign bank	1 year	Trade	20%	$200,000	$20,000	150%	$1,500,000	$150,000	30%	45%	$450,000	$45,000
	Corporate Customer	3 years	Unsecured Working Capital	100%	$1,000,000	$100,000	100%	$1,000,000	$100,000	N/A	100%	$1,000,000	$100,000
Honduras (OECD: 6)	Foreign bank	1 year	Trade	20%	$200,000	$20,000	150%	$1,500,000	$150,000	30%	45%	$450,000	$45,000
	Corporate Customer	3 years	Unsecured Working Capital	100%	$1,000,000	$100,000	100%	$1,000,000	$100,000	N/A	100%	$1,000,000	$100,000

Personal Responsibility

Due to the heightened personal responsibility experienced by the decision makers, such as the risk managers and compliance officers, the inclination to de-risk is also heightened

- Public outcry that no bankers went to jail after the economic crisis 2008-2010.
- Risk and Compliance officers have been fined or lost their jobs as a result of recent enforcement actions.
- Yates memorandum issued by the Department of Justice calls for banks to conduct an internal investigation of any alleged violations and provide results and names to the Department of Justice for possible criminal or civil prosecution.
- New York State Department of Financial Services has proposed a new rule whereby the chief compliance officer or the Board of Directors must certify that a bank maintains systems to "detect, weed out and prevent illicit" money transfers.

How Can We Improve the Situation?

A Balanced Approach

- These issues reaffirm having a balanced approach and mitigating AML regulatory issues including through information sharing

- As a collective effort, each jurisdiction must fulfill their role in this global challenge including involvement of Central Banks

- Clarify risk indicators and distinguish between country and institutional risks.

- What's needed:
  - Education
  - A balanced regulatory scheme
  - Cross-country communication
  - Recognition by regulators and policy makers that there is a problem
  - Standardization
  - Information sharing between regulators, law enforcement and the industry
  - "Culture of compliance" at the regulatory and law enforcement level


12.80M
+0.200
+1.767%
146.88M
09:30
13:00
5.81M
-0.450
-0.732%
356.28M
09:30
13:00

Closing


205.32M
+0.030
+0.581%
1.07B
09:30
13:00
19.65M
+0.020
105.07M

In Conclusion

- With the diversification and consistent growth of trade opportunities around the world, trade finance will remain a necessity.
- However, that comes with regulatory compliance.
- In order for trade finance to flourish with minimized risk, financial institutions must engage in appropriate training programs and regulatory assessments.
- Global financial institutions must constantly be in communication to ensure adopted policies maintain consistent with the levels of risk that must be managed.
- Ultimately, the future of correspondent banking is at a crossroads and the solution lies in enhanced understanding, cooperation and flexibility.
- Doing this right could ultimately lead to ***a positive revolution*** for the future.

Let’s Connect!

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