

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

September 9, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: Wednesday, September 14, 2022, Full Committee Hearing entitled, “When Banks Leave: The Impacts of De-Risking on the Caribbean and Strategies for Ensuring Financial Access.”

The Full Committee will hold a hearing entitled, “When Banks Leave: The Impacts of De-Risking on the Caribbean and Strategies for Ensuring Financial Access.” on Wednesday, September 14, 2022, at 10:00 a.m. in room 2128 of the Rayburn House Office Building/ Cisco Webex. There will be two panels with the following witnesses:

- **First Panel:**
 - **The Hon. Mia Amor Mottley**, Q.C., M.P., Prime Minister of Barbados; Minister of Finance, Economic Affairs and Investment; Minister of National Security and the Public Service (with responsibility for Culture and CARICOM Matters)
- **Second Panel:**
 - **Ms. Wendy Delmar**, CEO, Caribbean Association of Banks
 - **Mr. Wazim Mohamed Mowla**, Assistant Director and Lead of the Caribbean Initiative, Adrienne Arsht Latin America Center, Atlantic Council
 - **Mr. I. Wayne Shah**, Senior Vice President, Financial Institutions – Head of Caribbean Region, Wells Fargo Bank, N.A., and Executive Director, Financial & International Business Association (FIBA)
 - **Mr. Amit Sharma**, CEO, Founder, and Director, FinClusive
 - **Ms. Liat Shetret**, Director of Global Policy and Regulation, Elliptic

Summary

Access to financial services, such as receiving or sending funds, is critical for individuals and businesses to thrive in an economy and for nations to grow and remain resilient in the face of short-and long-term challenges. Globally, much of this financial access occurs through correspondent banking relationships (CBRs), which are “agreements or contractual relationships between banks to provide payment services for each other.”¹ CBRs are often used for cross-border payments, such as “wire transfers, trade finance, cash and treasury management, check clearing and collection, securities and foreign exchange purchases, and participation in large loans,”² where two financial institutions (“respondent banks”) are customers of a third party, a separate FI known as a “correspondent bank,” that serves as the conduit for their transactions.³ It is through these CBRs that international trade, immigrant remittances,

¹ European Central Bank, *Ninth Survey on Correspondent Banking in Euro 2014*, Feb. 2015.

² PricewaterhouseCoopers, *Correspondence Course: Charting a Future for U.S. Dollar Clearing and Correspondent Banking Through Analytics*, Sep. 2015.

³ With a CBR, when the individual or legal-entity customer of the respondent bank initiates a transaction (e.g., sending money to family abroad or making a business payment for an imported good), that customer’s bank uses its CBR with the correspondent bank to complete the transaction with the foreign respondent bank – and its customer – at the other end. The two customers engage directly, but behind the scenes, their transaction is facilitated and vetted by several intermediaries.

and humanitarian aid flow.⁴ Further, most payment solutions that do not involve a traditional bank account (such as a money service business [MSB] like Western Union or MoneyGram) rely on CBRs for the actual transfer of funds. Because of the broad international reach required to provide CBR services, correspondent banks tend to be the largest institutions in the industry.

While this is a global concern, the steadily reduced access to financial services in the Caribbean region, which is comprised of 13 sovereign states and nearly two dozen non-sovereign territories, affects the prosperity and security of its people, countries, and the wider region, including the U.S. This hearing continues the efforts of the Committee to elevate this issue, bring together stakeholders, and identify solutions for the region and the United States.⁵

Correspondent Banking Relationships and De-Risking

“De-risking” means “actions taken by a financial institution to terminate, fail to initiate, or restrict a business relationship with a customer, or a category of customers, rather than manage the risk associated with that relationship consistent with risk-based supervisory or regulatory requirements, due to drivers such as profitability, reputational risk, lower risk appetites of banks, regulatory burdens or unclear expectations, and sanctions regimes.”⁶ De-risking occurs when financial access is cut off indiscriminately, often to all of those in a community, without full-fledged evaluation of risk.

Over the last decade, money transfer operators, small and medium domestic banks, small and medium exporters, and others have been de-risked because they are perceived, accurately or not, as high risk for financial crime.⁷ The trend, especially from the perspective of the de-risking institution, has also been attributed to the rising costs associated with anti-money laundering/countering the financing of terrorism (AML/CFT) and sanctions compliance, as well as uncertainty about the extent to which FIs should engage in legal and regulatory-mandated customer due diligence (CDD)⁸ in order to avoid regulatory reprisals.⁹ Other factors that figure prominently include profitability from the CBR services,¹⁰ an FI’s reputational risk due to association with a particular customer or industry, reputational risk from failure to detect financial crime, and fear of significant legal and monetary penalties as a result of such failure. Cyber risks and compliance with the U.S. Foreign Account Tax Compliance Act (FATCA) have also contributed to the de-risking of CBRs.¹¹

In one example of a governmental effort to respond to the increase in de-risking activity, the Office of the Comptroller of the Currency (OCC)-issued de-risking guidance, advising financial institutions (FIs)

⁴ World Bank, *Global Financial Development Report 2017/2018*, Nov. 2017.

⁵ Chairwoman Maxine Waters convened a half-day roundtable in November 2019 with Members of Congress, financial institutions (FIs), and representatives of the region. In April 2022, a larger group participated in a full-day “Caribbean Financial Access Roundtable,” co-hosted by Chairwoman Waters and the Honourable Mia Amor Mottley, K.C., M.P., Prime Minister of Barbados, in Bridgetown, Barbados. At that meeting, nearly a dozen regional heads of state joined Members of Congress, international financial institutions, FIs, U.S. and Caribbean government representatives, and members of civil society to evaluate and advance a number of proposals that could reverse the negative trend of recent years. In May 2022, Chairwoman Waters also sent a letter to President Biden, in advance of the Ninth Summit of the Americas, to press for the inclusion of this critical financial access issue as a permanent part of the ongoing Summit dialogues. (See Appendix 2)

⁶ Anti-Money Laundering Act of 2020, Division F of the William M. (Mac) Thornberry National Defense Authorization Act (NDAA) for FY2021, P.L. 116-283, Section 6215, Financial Services De-Risking.

⁷ Global Center on Cooperative Security, Tracey Durner and Liat Shetret, *Understanding Bank De-Risking and Its Effects on Financial Inclusion: An Exploratory Study*, Nov. 2015.

⁸ SWIFT, *What is Customer Due Diligence (CDD)?*, Accessed Sep. 8, 2022.

⁹ Bank for International Settlements, Committee on Payments and Market Infrastructures, *Correspondent Banking*, Jul. 2016.

¹⁰ IMF, *Recent Trends in Correspondent Banking Relationships-Further Considerations*, Mar. 16, 2017.

¹¹ FATCA is a U.S. law designed to prevent tax evasion by U.S. citizens using offshore banking facilities and has been blamed by many in the Caribbean region for exacerbating the withdrawal of CBRs. For example, see ,” Jamaica Observer, “*FATCA hurting Caribbean: Revoke it Mr. Trump*,” Feb. 12, 2017. See also, UCLA Law Review, vol. 60, Itai Grinberg, “*The Battle Over Taxing Offshore Accounts*,” 2012.

to adopt a “risk-based approach,”¹² by conducting periodic risk re-evaluations of their foreign correspondent accounts and to consider information provided by foreign financial institutions that might mitigate risk. While not relieving banks of their AML requirements, the guidance notes that the OCC does not encourage banks to terminate entire categories of customer accounts “without considering the risks presented by an individual customer or the bank’s ability to manage the risk.”¹³ The U.S. Department of the Treasury is also completing a government-wide strategy to combat de-risking, as mandated by law, due in late 2022.¹⁴

Financial Access and the People, Businesses, and Nations of the Caribbean

De-risking has adversely affected many nations and regions in the Caribbean. A study by the Atlantic Council found that from 2011–2020, both the number of “active correspondents” and of “correspondent corridors” globally had declined significantly and steadily, with Latin America and the Caribbean suffering the largest drop in active correspondents, a reduction of about 40%, in sharp contrast from the 15% contraction for North America.¹⁵ A 2016 Caribbean Association of Banks survey found that 55% of those regional-based banks responding to its CBR survey had lost one or more CBRs, a trend that persists for Caribbean FIs as the number of CBRs continues to dwindle worldwide.¹⁶ Further, in that period, while U.S. dollar-denominated transactions contracted globally in terms of active correspondents—by about 35%—the contraction was particularly steep in the Caribbean with a drop of 42%.¹⁷ In real terms, this means that during this period, options to engage in the cross-border economic activity, such as remittances, tourist dollar transactions, and import of needed goods, were denied, delayed, or increased in cost.

A significant driver for de-risking to this island region is volume versus profitability. Because correspondent banks often rely on income generated by fees, Caribbean countries with small populations face difficulty generating a large enough volume of activity to cover the banks’ servicing costs, including AML/CFT and sanctions compliance, particularly when each Caribbean country may have unique regulatory, legal, or enforcement frameworks that the correspondent banks are required to evaluate and navigate.¹⁸ To respond to this problem, the International Monetary Fund advocates for movement towards regional harmonization of AML/CFT laws and regulations.¹⁹ Others have suggested that the region go farther, coordinating the regional respondents’ AML/CFT compliance through a consortium or hub bank developed at a public or private entity, in essence, combining the individual nations’ financial flows into a single, larger stream of funds. Another option is to create a “centralized know-your-customer (KYC) utility” which would clear individual customers through CDD-related vetting.²⁰

One issue that has been raised by CARICOM and the Caribbean nations is that the global reports and lists that are used to evaluate a nation’s risk for ML/TF activity cause unfair negative perception that triggers the FI decisions to de-risk. These include the European Union’s (EU) AML blacklist,²¹ the EU’s

¹² FATF, *Guidance For A Risk-Based Approach - The Banking Sector*, Oct. 2014.

¹³ OCC, *Risk Management Guidance on Periodic Risk Reevaluation of Foreign Correspondent Banking*, Oct. 5, 2016.

¹⁴ See footnote No. 6.

¹⁵ A “correspondent corridor” refers to a country pair (for example, the United States and Jamaica) which had processed at least one correspondent banking transaction. “Active correspondents” measure the number of banks that have sent or received payment messages. See Atlantic Council, Jason Marczak and Wazim Mowla, *“Financial De-Risking in the Caribbean: The US Implications and What Needs to be Done.”* Feb. 2022.

¹⁶ Caribbean Association of Banks, *Summary of Findings: Correspondent Banking Survey*, Oct. 2016.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ IMF, *Eastern Caribbean Currency Union*, Jul, 27, 2022.

²⁰ U.S. Government Accountability Office, *Bank Secrecy Act: Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries*, Dec. 2021.

²¹ Simmons & Simmons, LLP, *Cayman added to the EU’s AML blacklist – what are the consequences?*, Feb, 20, 2022.

non-cooperative tax jurisdictions blacklist,²² and FATF's Ongoing Monitoring (or 'Grey') List.²³ Another report, the International Narcotics Strategy Control Report (INCSR), is issued annually by the U.S. Department of State, detailing those countries that have illicit drugs trade-related money laundering activity.²⁴ While the report is not about the Caribbean specifically and includes countries like Canada, the United Kingdom, and the Netherlands, it does include many island nations, perhaps reinforcing negative, outdated stereotypes among the correspondent banks. The nations note that inclusion in this report is cited by correspondent banks as one reason for delays and account closures. Calling for additional language to recognize the efforts to combat ML/TF challenges, the region also proposes a new global process to rank countries' ML/TF risk based on the tangible impact of AML/CFT deficiencies and their role and size in the overall global financial crime environment.²⁵

Implications of U.S. Bank De-Risking for China-Caribbean Ties

De-risking by U.S. institutions in the Caribbean region has national security consequences for the U.S. as well as those that are purely economic. As noted in a recent U.S.-China Economic and Security Review Commission hearing,

At one point in time, Belize had lost about 40 percent of its correspondent network into the U.S., which means, in effect, that the Caribbean can be cut off from the entire world financial system, given that our trade currency is the U.S. currency. At some points in time, this leaves a fact where Caribbean countries will look to diversify its currency holdings. So now, for example, it leads by example, where it has a bilateral swap arrangement with the [People's Bank of China] PBOC, the Chinese Central Bank, for RMB already. I think over time perhaps other Caribbean countries will look to do that route as well.²⁶

China's banks, including its major state banks, generally operate under fewer regulatory guardrails than U.S. banks, which could allow them to fill key gaps in financial services left by U.S. banks that exit the region.²⁷ Major PRC banks have established correspondent banking and payment services arrangements with financial institutions in the Caribbean, potentially promoting use of the RMB for credit card settlements of small-volume retail transactions or services for PRC firms operating in the Caribbean, or for PRC tourists that visit the region.²⁸ Additionally, over the same period that western banks were de-risking the region, major China-based firms (often state-owned or tied) invested in eight major projects with a combined value of \$3.7 billion and won 13 construction contracts in the region worth a combined value of \$3.6 billion.²⁹ These projects and China's low-cost loan funds, parts of China's Belt and Road Initiative, have been referred to as "a Trojan horse for China-led regional development and military expansion" because they buttress China's effort to spread power and influence across the globe."³⁰

²² The Greens/EFA parliamentary group, [Spot the tax haven? Avoiding the blacklist is a game for zero tax countries](#), Feb. 23, 2022.

²³ FATF, [Topic: High-risk and other monitored jurisdictions](#), Accessed Sep. 9, 2022.

²⁴ U.S. Department of State, [International Narcotics Control Strategy Reports](#), Accessed Sep. 9, 2022.

²⁵ [Press conference following the Caribbean Financial Access Roundtable](#), Apr. 20, 2022.

²⁶ United States - China Economic and Security Review Commission, Testimony of Rasheed Griffith, [Hearing on China in Latin America and the Caribbean](#), May 20, 2021.

²⁷ Atlantic Council, Jason Marczak and Wazim Mowla, ["Financial De-Risking in the Caribbean: The US Implications and What Needs to be Done."](#) Feb. 2022.

²⁸ IBS Intelligence, Edlyn Cardoza, ["UnionPay acceptance is enabled in the Dominican Republic," Aug.17, 2022](#); China Daily, ["UnionPay enters Suriname 'testing ground'."](#) Nov. 10, 2014.

²⁹ American Enterprise Institute and the Heritage Foundation, [China Global Investment Tracker](#), Jun. 2022.

³⁰ Council on Foreign Relations, Andrew Chatzky and James McBride, [China's Massive Belt and Road Initiative](#), Jan. 28, 2020.

Examples of Communities Affected by De-Risking

Diaspora communities/remittances. The United States has more immigrants than any other country in the world, accounting for 14.1% of the U.S. population.³¹ Remittances³² from many of these individuals to their home countries have increased steadily over the past three decades, and, during the start of the Coronavirus Disease 2019 (COVID-19) crisis in 2020, were the largest source of external finance for low- and middle-income countries, exceeding foreign direct investment, portfolio investment, and official development assistance.³³ Latin America and the Caribbean are among the largest recipients of remittances, reaching \$131 billion in 2021, up 25% from 2020.³⁴ Further, although these personal remittances may be individually small in size, combined, they comprise a significant part of many nations' gross domestic product (GDP).³⁵ While the volume has increased, unlike many other parts of the world where the cost has dropped, for Latin American and the Caribbean, the price of a remittance has continued to climb.³⁶ The impact is that it becomes more costly for senders and recipients to use a remittances system, harming local economies and pushing citizens towards other transaction methods, such as unlicensed informal value transfer systems.³⁷

Non-governmental organizations (NGOs). NGOs are considered high-risk to the financial services sector³⁸ and often experience difficulty obtaining financial services, particularly those which require cross-border transactions due, in part, to rare-but-high-profile terrorist financing examples,³⁹ as well as the unique financing aspects of their organizations.⁴⁰ To address this, the Federal Financial Institutions Examination Council (FFIEC) has said that “the U.S. government does not view the charitable sector as a whole as presenting a uniform or unacceptably high risk of being used or exploited for [money laundering/terrorist finance (ML/TF)] or sanctions violations.”⁴¹ In reference to non-profits, the Financial Action Task Force (FATF) has also asserted that, “the wholesale termination of individual customers or entire classes of customer, without taking into account their level of risk or risk mitigation measures is not a proper implementation of a risk-based approach and is not consistent with the FATF Standards.”⁴²

US/Mexico border. Financial flows between Mexico and the U.S., which represented \$750 billion in trade, remittances, tourism and other activities in 2020, generally rely on CBRs. These relationships are affected by de-risking, in part due to banks' caution over illicit financial flows and the related AML/CFT compliance. The Texas Association of Business (TAB) issued a recent report that attributed significant dampening of employment and GDP growth for both the U.S. and Mexico as a result of the reduced CBR access.⁴³

³¹ New York Times, Miriam Jordan and Robert Gebeloff, “[Amid Slowdown, Immigration Is Driving U.S. Population Growth](#),” Feb. 5, 2022.

³² IMF, [Remittances: Funds for the Folks Back Home](#), Feb 24, 2020.

³³ World Bank, [Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis](#), May 12, 2021.

³⁴ World Bank, [Migration and Development Brief 36](#), May 2022.

³⁵ Countries like Jamaica and Haiti gained over 20% of their GDP through remittances. World Bank, [Personal remittances, received \(% of GDP\)](#), Accessed Sep. 9, 2022.

³⁶ See footnote No. 27

³⁷ FinCEN Advisory, [Subject: Informal Value Transfer Systems](#), Mar. 2003.

³⁸ AML RightSource, [Are All Charities High Risk Customers?](#), Nov. 24, 2020.

³⁹ See U.S. Department of Justice, [Federal Jury In Dallas Convicts Holy Land Foundation and Its Leaders for Providing Material Support to Hamas Terrorist Organization](#), Nov. 28, 2008.

⁴⁰ Consortium for Financial Access, [Banking Nonprofit Organizations – The Way Forward](#), June 2019.

⁴¹ FFIEC, [Risks Associated with Money Laundering and Terrorist Financing: Charities and Nonprofit Organizations](#), Accessed Sep. 6, 2022.

⁴² FATF, [Combating The Abuse of Non-Profit Organisations \(Recommendation 8\)](#), Jun. 2015.

⁴³ Ibid.

Appendix: Legislation

- **H.R. 8535, “Shirley Chisholm Congressional Gold Medal Act” (Rep. Lee, D-CA).** This bill would posthumously award a Congressional gold medal to Shirley Chisholm, and Guyanese and Bajan diaspora community member and the first African-American woman elected to Congress.
- **H.R. 8797, “Caribbean Stakeholders Engagement Act” (Rep. Waters, D-CA).** This bill would require Treasury to engage with Caribbean FIs and governments in composing the mandated U.S.-government-wide strategy to combat de-risking
- **H.R. 8798, “The INCSR Improvement Act” (Rep. Waters, D-CA).** This bill would add optional "Improvements" sections to country listings in the Money Laundering volume of the International Narcotics Control Strategy Report (INCSR), issued annually by the Department of State.
- **H.R. #####, “AML Examiners Academy Act” (Discussion Draft).** This bill would establish an AML Examiners Academy for federal, state, and foreign examiners, via the FFIEC.