

**HEARING BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES**

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Chairwoman Waters, Ranking Member McHenry, and Members of the Committee: Good morning. I am Wayne Shah, Senior Vice President of the Financial Institutions Group at Wells Fargo and Company¹ and a board member and on the Executive Committee of the Financial and International Business Association (FIBA), of which Wells Fargo is a longstanding member. I appreciate the opportunity to be here today and look forward to sharing with you the many ways in which Wells Fargo is working support our correspondent bank customers in the Caribbean and the communities they serve. I will speak to you today in two capacities: first, I will discuss Wells Fargo's activity in the Caribbean, and second, I will discuss FIBA's efforts in this area.

Wells Fargo and the Caribbean

At Wells Fargo, we provide a diversified set of banking, investment, and mortgage products and services, as well as consumer and commercial finance, through our four reportable operating segments: Consumer Banking and Lending, Commercial Banking, Corporate and Investment Banking, and Wealth & Investment Management. I work for Wells Fargo Corporate & Investment Banking² and support both domestic and

¹ Wells Fargo (NYSE: WFC) is a leading financial services company that has approximately \$1.9 trillion in assets. It proudly serves one in three U.S. households and more than 10% of small businesses in the U.S., and is a leading middle-market banking provider in the U.S. In the communities we serve, the company focuses its social impact on building a sustainable, inclusive future for all by supporting housing affordability, small business growth, financial health, and a low-carbon economy.

² Wells Fargo Corporate & Investment Banking (CIB) is a division within Wells Fargo & Company. CIB delivers a suite of capital markets, banking and financial products and services to corporate, commercial real estate, government and institutional clients globally. Products and services include corporate banking, investment banking, treasury management, commercial real estate lending and servicing, equity and fixed

international financial institutions through a dedicated industry coverage team. We are a major correspondent bank to other banks and our commitment to serving financial institutions spans Wells Fargo's 170-year history and continues to this day.

Wells Fargo has provided strategic correspondent banking services to Caribbean banks for more than 50 years. Our commitment to the region's growth and development is underscored by our market share and the number of countries where Wells Fargo's services are available. Wells Fargo correspondent banking provides services to financial institutions at the regional, head office, and individual country level, which all facilitate financial access. Today, we provide services to over 30 countries in the Caribbean.

Following the 2008 financial crisis, the process known as "de-risking" accelerated in the Caribbean. "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."³ In 2007, with the support of Wells Fargo, FIBA created the Caribbean Roundtable to highlight and discuss pressing matters for the Caribbean banking community. FIBA leveraged the Caribbean Roundtable to investigate the potential loss of support for correspondent banking in the Caribbean region, which FIBA ultimately attributed to the change in perception of the risk the Caribbean region posed.

According to FIBA, de-risking seemed to disproportionately impact smaller respondent banks in the smaller islands, who were no longer able to support their customers' international business via:

- Access to international markets.

income solutions, as well as sales, trading, and research capabilities. CIB is the trade name used for the corporate banking, capital markets, and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, member of NYSE, FINRA, NFA, and SIPC, Wells Fargo Prime Services, LLC, member of FINRA, NFA and SIPC, and Wells Fargo Bank, N.A., member NFA and swap dealer registered with the CFTC and security-based swap dealer registered with the SEC. Wells Fargo Securities, LLC and Wells Fargo Prime Services, LLC, are distinct entities from affiliated banks and thrifts.

³ U.S. Department of State, <https://www.state.gov/de-risking/>.

- Foreign payments and trade services.
- Cross border credit cards.

During this time, other financial services necessary to support tourism, net foreign investments, international payments, and trade finance continued to be available through the larger, unaffected financial institutions.

Wells Fargo remained in the Caribbean region during this time period. We recognized, and continue to recognize, the risks posed by the correspondent banking business to Wells Fargo and the broader U.S. financial system. Our approach post-financial crisis has been to manage and mitigate those risks. Instead of completely exiting, Wells Fargo embarked on a significant effort with respondent banks to understand the risks posed by their customers and transactions, as well as how respondents mitigate those risks in their BSA/AML programs. Where appropriate, we provided thought leadership on how these programs could be strengthened. Wells Fargo's focus was to understand, improve, and align risk management objectives with our risk appetite. Our aim was to provide customers with the information, tools, and support to grow and improve with the benefit of our robust risk management standards.

To that end, Wells Fargo takes a leadership role in creating and participating in regional forums that discuss Caribbean financial issues. Wells Fargo established an internally funded annual Caribbean Conference, whose purpose is to create a forum for regional networking and collaboration and provide the opportunity for Wells Fargo to collectively work with Caribbean respondents navigating change, supporting risk appetite alignment, and offering thought leadership. The goal was to foster self-reliant and resilient financial institutions. The conference is focused on building a better and safer financially inclusive Caribbean ecosystem.

FIBA and the Caribbean

As a FIBA Board Member, I would like to also take a few minutes to talk about the contributions FIBA made in response to de-risking the Caribbean. Built on a legacy that spans over 40 years, FIBA is a non-profit trade association and international center for financial excellence whose membership includes the largest financial institutions from Europe, the United States, Latin America, and the Caribbean. As the leading voice for international banking in the U.S., Latin America, and the Caribbean, FIBA is recognized by the financial services industry, regulators, and law enforcement as a Center for Excellence for its knowledge and expertise in anti-money laundering compliance and its high-level education and training programs.

In 2009 at a Roundtable session, FIBA first raised concerns about the potential loss of support for correspondent banking in the Caribbean region. Over the next several years, FIBA focused on this issue, inviting stakeholders from Caribbean governmental agencies, Caribbean financial institutions, the U.S. Treasury Department, and U.S. regulatory agencies, to debate the causes and potential solutions.⁴ According to FIBA, U.S. national security depends on prosperity and stability in the hemisphere. Establishing financial links to our neighbors strengthens the region, our alliances, and ultimately ourselves. Severing those links does the opposite. Healthy business relations facilitated by correspondent banking is an essential cog in that machine.

Over the years of de-risking, FIBA could not find any empirical evidence to believe that Caribbean banks had lesser abilities regarding BSA/AML. In fact, FIBA's view was that the Caribbean banks that remain in the market have invested heavily in BSA/AML compliance enhancements and risk management measures and are currently highly compliant with international guidelines and industry best practices.

⁴ Attached is a FIBA presentation made to the Association of Supervisors of Banks of the Americas "De-Risking: How is it impacting correspondent banking in the region and what are the solutions?"

FIBA's Caribbean Roundtable was successful in identifying the cause and effect of early de-risking that served to alert members to the phenomenon at large. Discussions with all stakeholders over the years raised awareness and caused Caribbean banks to improve their BSA/AML compliance programs. FIBA was instrumental in providing much needed training courses, webinars, and leadership. As the organization identifying and responding to the phenomenon of de-risking, FIBA actively participated and was a key contributor to the efforts of a variety of organizations that also became active in the de-risking space. FIBA's contribution to the work surrounding de-risking is noted in the support of findings by the Inter-American Development Bank, Caribbean Association of Banks, International Monetary Fund and, most recently, the Bankers Association for Finance and Trade, and the Atlantic Council.⁵

In FIBA's opinion, the era of de-risking of small Caribbean banks has long been over, but major challenges remain for financial inclusion for the Caribbean, including:

- Making sure history does not repeat itself and de-risking does not affect the larger Caribbean banks.
- Encouraging correspondent banks to return to the region.
- Sustaining a view that the Caribbean is a region of safety and soundness for financial services and inclusion.
- Encouraging independent country and counterparty risk analysis.
- Calibrating regulatory mandates and addressing unintended consequences of legislation and regulations.

On behalf of Wells Fargo and FIBA, thank you for letting me speak today. I welcome your questions.

⁵ https://www.atlanticcouncil.org/wp-content/uploads/2022/02/Financial-De-Risking-in-the-Caribbean_US-Implications.pdf.